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Dr. Joseph B. Morton
State Superintendent of Education
Alabama State Department of Education
50 North Ripley Street
P.O. Box 302101
Montgomery, Alabama 36104

Dear Dr. Morton:

This **Final Audit Report**, entitled *Review of the Alabama State Department of Education's Reading First Program*, presents the results of our audit. The purpose of the review was to determine whether the State of Alabama administered the Reading First Program in compliance with the Elementary and Secondary Education Act, as amended by the No Child Left Behind Act of 2001 (NCLB), and applicable Department of Education (Department) regulations and program guidance. Our review covered the Alabama State Department of Education's (ALSDE) program administration and grant fund expenditures for fiscal year 2004 (October 1, 2003 through September 30, 2004).

We provided a draft of this audit report to ALSDE and it provided an e-mail response, agreeing with the contents.

AUDIT RESULTS

Our review of the state, three of its local education agencies (LEAs), and five schools did not identify any significant problems with the ALSDE's administration of its Reading First program. We found that ALSDE and the three LEAs reviewed 1) developed adequate policies, procedures and controls to administer the program; 2) funded schools that served students in kindergarten through third grade and used reading programs that ALSDE determined were based on scientifically based reading research; 3) provided professional development and technical assistance; and 4) monitored the program implementation at funded schools. We also found that ALSDE evaluated and reported yearly progress made by the LEAs in the Reading First program, and included all elements reported by the LEAs for the program in its annual performance report submitted to the Department.

In addition, our review of ALSDE's administrative expenditures and the three LEAs' grant expenditures for five funded schools found that Reading First program funds were used for

allowable activities, such as instructional reading assessments; instructional materials; professional development for teachers; evaluation strategies; and access to reading materials. ALSDE's reported costs incurred appeared to support the purpose of the program and were within established cost limits for administration and planning activities.

In site visits, we verified that the five schools reviewed had administered the Reading First program and that the schools' programs appeared to be complying with Reading First program requirements of the No Child Left Behind Act and applicable Departmental regulations. The reviewed schools served students in kindergarten through third grade and used reading programs that ALSDE determined were based on scientifically based reading research.

BACKGROUND

NCLB, signed into law on January 8, 2002, redefined the Federal role in K-12 education with the intention of closing the achievement gap between disadvantaged and minority students and their peers. NCLB is based on four basic principles – stronger accountability for results; increased flexibility and local control; expanded options for parents; and an emphasis on proven teaching methods. The Act established the Reading First initiative as a new, high-quality, evidence-based program for students. The Reading First program is included in the Elementary and Secondary Education Act, as amended, Title I, Part B, Subpart 1. The Reading First initiative builds on the findings of years of scientific research, which, at the request of Congress, was compiled by the National Reading Panel. In April 2002, the Department's Office of Elementary and Secondary Education (OESE) published Guidance for the Reading First Program to help state education agencies and grant recipients administer the program.

Reading First is a focused, nationwide effort to enable all students to become successful readers at an early age. Funds are dedicated to help States and local school districts eliminate the reading deficit by establishing high-quality, comprehensive reading instruction in kindergarten through third grade. Building on a solid foundation of research, the program is designed to select and implement scientifically based reading research (SBRR) programs. In addition, it is designed to provide professional development related to SBRR programs, and to ensure accountability through ongoing, valid and reliable screening, diagnostic, and classroom-based assessments.

The Reading First program provides funds to train teachers in the essential components of reading, such as, phonemic awareness, phonics, fluency, vocabulary, and comprehension. The program also provides funds to select and administer screening, diagnostic and classroom-based instructional reading assessments to identify those children who may be at risk of reading failure. Funds are also provided for professional development for special education teachers in kindergarten through twelfth grade.

State Education Agencies (SEAs), such as ALSDE, may reserve up to 20 percent of the State grant funds for professional development, technical assistance, planning, and administrative and reporting activities. LEAs may reserve up to 3.5 percent for planning and administration. States must submit an annual report showing the greatest gains in reading achievement, and must reduce the number of children in first through third grade who are reading below grade level.

Initial applications were required by May 29, 2002 in order to receive funding by July 1, 2002. Total appropriation was \$993.5 million for FY 2003 and \$1.024 billion for FY 2004. All 50 States, the District of Columbia, Puerto Rico, Bureau of Indian Affairs, America Samoa, N. Mariana Islands, Guam, and Virgin Islands are eligible to participate in the program. During the period of review, the ALSDE was allotted approximately \$18 million to administer the program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objective was to determine whether ALSDE administered the Reading First program in compliance with the NCLB and applicable Departmental regulations and program guidance. To meet the objective, we reviewed the policies and procedures used to administer the Reading First program by the Office of Elementary and Secondary Education's (OESE) Reading First program office, ALSDE's Reading First program office, and three LEAs. We also reviewed the use of fiscal year 2004 grant funds at ALSDE, three LEAs and five funded schools.

Because our review focused on Alabama's administration of the Reading First program, we did not review the Department's process and basis for approving the State applications, nor did we review the State of Alabama's grant application process. However, to gain background information for evaluating the State's administration of the program, we interviewed OESE officials to determine the policies and procedures used in administering the Reading First program, and any concerns for potential, or known, problems with the program at the federal, state, and local levels. In addition, we reviewed OESE's monitoring efforts, including site visits made to ALSDE, and its LEAs and schools, as well as OESE's technical assistance provided to ALSDE in administering its program.

To meet our objective for evaluating Alabama's administration of the Reading First program, we

- Interviewed ALSDE, LEA, and school officials to determine the policies and procedures followed in administering the Reading First program, and any concerns for potential, or known, problems with the program at the federal, state, and local levels.
- Reviewed ALSDE and the selected LEAs' policies and procedures used in administering the Reading First program.
- Reviewed ALSDE's monitoring of the Reading First program at selected LEAs and schools.
- Verified that the selected LEAs were using reading programs that ALSDE determined were based on scientifically based reading research (SBRR).
- Verified that the program served only students in grades kindergarten through third grade at the five schools visited through classroom observations, interviews of LEA and school officials, and review of grant fund expenditures.
- Determined if ALSDE evaluated and reported yearly progress made by the selected LEAs in the Reading First Program, and included all elements reported by the LEAs for the program in its annual performance reports submitted to the Department.
- Reviewed Reading First funded expenditures at ALSDE (twenty percent reserve), three LEAs and the five schools to determine if (1) the program grantee (ALSDE) and sub-grantees (LEAs

and schools) used grant funds for the purposes outlined in their respective applications; and (2) costs incurred were allowable, supported the purpose of the program, and were within established cost limits for administration and planning activities. In addition, we reviewed selected expenditures¹ totaling over \$4.5 million² to verify use at the five selected schools.

- Reviewed OMB Circular A-133 Single Audit reports to determine if there were applicable compliance findings concerning the program at SEAs or LEAs.

We selected ALSDE because it was one of the first state education agencies funded for the program and it had drawn down the majority of its Reading First program funding. During the period reviewed, ALSDE funded 36 LEAs and had 74 schools participating in the Reading First program. From a stratified list of the state’s LEAs, we selected three LEAs for review, one from each strata – large, medium, and small, based on the number of schools funded within the LEA. From the large group of LEAs, we judgmentally selected the Mobile County school district because it was Alabama’s largest LEA and had not been reviewed by the Department's monitoring contractor. In addition to our review of the LEA, we randomly selected two of Mobile’s 10 funded schools for review. We randomly selected the Perry County and Clarke County school districts from the medium and small group of LEAs, respectively. We reviewed all of the schools funded within those LEAs —2 schools in Perry County and 1 school in Clarke County. The following table summarizes Reading First funds reviewed:

Table 1.1 Summary Of State And Local Education Agency Funds Reviewed³

				Percentage of Expended Funds Reviewed
SEA Reserve	\$ 3,616,500	\$ 3,553,319	\$ 3,553,319	100%
Pass Through to LEAs ⁴	\$ 14,466,002	\$ 14,466,002	\$ 959,602	7%
Totals	\$ 18,082,502	\$ 18,019,321	\$ 4,512,921	25%
LEAs/Schools Visited:				
Mobile County (2)	\$ 3,048,974	\$ 2,608,766	\$ 439,871	17%
Perry County (2)	\$ 303,351	\$ 280,317	\$ 280,317	100%
Clarke County (1)	\$ 273,575	\$ 239,414	\$ 239,414	100%

We visited OESE in Washington, D.C. and offices at ALSDE, as well as the Mobile County, Perry County, and Clarke County school districts and conducted our audit fieldwork during the period February 2005 through May 2005. We held an exit conference with ALSDE officials on August 11, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

¹ Reading First program expenditures reviewed included instructional reading assessments; instructional materials; professional development for teachers; evaluation strategies; and access to reading materials. We assessed whether grantee and subgrantee reported costs incurred appeared to support the purpose of the program and were within established cost limits for administration and planning activities.

² As indicated in Table 1.1, we reviewed 25 percent of ALSDE expenditures and 100 percent of expenditures for the five schools reviewed, which represented 100 percent of the expenditures at two LEAs and 17 percent of the expenditures at the largest LEA.

³ These amounts are for Fiscal Year 2004 only, and do not include Fiscal Year 2003 carryover grant fund amounts.

⁴ Includes funds awarded, expended, and reviewed for the LEAs listed at the bottom of the table.

ADMINISTRATIVE MATTERS

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact Mary Allen, Assistant Regional Inspector General for Audit, at 404-562-6465.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit Services

cc: Chris Doherty, Director Reading First program