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Audit Services
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Dr. Hank M. Bounds
State Superintendent of Education
Mississippi Department of Education
P.O. Box 771
Jackson, MS 39205

Dear Dr. Bounds:

This **Final Audit Report**, entitled *Audit of Mississippi Department of Education's (MDE) Emergency Impact Aid (EIA) Program Controls and Compliance*, presents the results of our audit. Our objectives were to determine if (1) MDE and six selected Local Educational Agencies (LEA) established adequate systems of internal control to provide accurate displaced student count data; (2) MDE established an adequate system of internal control to make accurate allocations of EIA funds; and (3) LEAs used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations. In addition, we evaluated MDE's systems of control over the administration of the Assistance for Homeless Youth Program. Our audit covered the 2005-2006 school year for both EIA and Homeless Youth programs.

BACKGROUND

In 2005, Hurricanes Katrina and Rita had a devastating and unprecedented impact on students and teachers in Louisiana, Mississippi, Alabama, and Texas. Schools on the Gulf Coast suffered tremendous damage, requiring the temporary or permanent closure of schools, depending on the extent of damage sustained. The hurricanes' destruction forced students to enroll in the surviving schools outside of their home area. Hurricane Katrina alone displaced about 372,000 students, with over 10,000 students displaced to Mississippi. As a result of the devastation, the Federal Emergency Management Agency (FEMA) declared the affected States disaster areas, making them eligible for Federal aid; and Congress appropriated emergency grant funds for the 2005-2006 school year.

The *Hurricane Education Recovery Act (HERA)*, passed as part of Public Law 109-148 in December 2005, authorized three new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita, and to help

schools closed as a result of the hurricanes to re-open as quickly and effectively as possible. The programs included in the HERA are (1) the Immediate Aid to Restart School Operations (Restart) program, funded at \$750 million; (2) the Assistance for Homeless Youth program, funded at \$5 million; and (3) the Temporary Emergency Impact Aid for Displaced Students (EIA) program, funded at \$645 million. In June 2006, Congress appropriated an additional \$235 million for the EIA program in the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery 2006*.

The EIA program provided funding to State Educational Agencies (SEA) to cover the cost of educating students who were displaced by Hurricanes Katrina and Rita during the 2005-2006 school year. To receive aid, eligible SEAs were required to apply for the funds; the application included providing quarterly enrollment counts of displaced students, as well as other application information required by the Department of Education (Department). According to the EIA funding provisions, each SEA could receive up to \$1,875 per quarter for displaced students with disabilities (SWD) and up to \$1,500 per quarter for displaced Non-SWD. The full amounts were funded and the funding was provided to the SEA quarterly during the 2005-2006 school year, based on the number of displaced students counted in the State for each of the four quarters.

MDE directed the LEAs, non-public, and Bureau of Indian Education (BIE) funded schools to provide quarterly head counts of displaced students with counts effective as of October 11, 2005; December 1, 2005; February 1, 2006; and April 3, 2006. MDE used these counts to support its quarterly submissions to the Department. MDE received over \$100 million of EIA funding for all four quarters combined, and distributed those funds to each LEA based on its quarterly counts of displaced students submitted for each category – SWD and Non-SWD.

The Assistance for Homeless Youth program, which was also authorized under the HERA, is closely related to the EIA program. The program provided funding to SEAs to assist in meeting the needs of students displaced by Hurricanes Katrina and Rita. The Department used the same information that the SEA provided on its EIA applications to award Assistance for Homeless Youth program funding. The SEAs sub-granted the Homeless Youth funds to the LEAs that applied for the program. MDE received over \$680,000 in funding for the Homeless Youth program and allocated those funds to 14 LEAs. MDE allocated the program funds to those LEAs using a methodology that took into account the quality of the LEA's program plan, including the budget and narrative; the number of homeless students they reported; and the amount requested. LEAs were allowed to use the Homeless Youth program funds on activities allowable under the McKinney-Vento Homeless Assistance Act.

AUDIT RESULTS

We found that all six of the LEAs reviewed in our sample reported inaccurate displaced student counts to MDE in support of the State's submission to the Department. As a result, MDE may have received more than \$3.1 million in excess of its entitlement for EIA funds. MDE and the LEAs had weak internal controls over displaced student counts, and MDE had no mechanism in place to test

the reliability of the information received from LEAs. Because of the Department's prescribed time constraints for issuing quarterly payments to LEAs, MDE initially focused on distributing EIA funds to the LEAs in a timely manner. However, after the final funds had been allocated to the LEAs, MDE focused on monitoring; and, in September 2006, MDE implemented a monitoring plan, which we found to be adequate. The monitoring plan consists of contracts with five CPA firms to conduct on-site monitoring at 108 selected LEAs out of 134 LEAs awarded displaced student funds. Specifically, the CPA firms were tasked to ensure the accuracy of displaced student counts and ensure expenditures were allowable. As of the beginning of November 2006, MDE had received only a few LEA review reports from one CPA firm. According to an MDE official, the CPA firm found erroneous displaced student counts at the LEAs; this is consistent with our audit findings.

Although we initially found errors on MDE's funding allocation spreadsheets for quarters one through three, MDE revised its counts and allocations for all four quarters correcting the errors we identified. In our review of EIA expenditures, we found that the six LEAs in our sample made expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations, with the majority of the EIA funds spent on payroll. In our review of the Assistance for Homeless Youth program, we found that MDE had adequate policies, procedures and controls over the administration of the program. The funding allocation calculations were accurate and the allocation methodology was appropriate. However, at the time of our review, MDE had not distributed any Homeless Youth funds to the LEAs.

In its comments to the draft report, MDE generally concurred with our finding and related recommendations, but did not agree with our use of projections in recommending the return of funds related to the six LEAs' misidentification of displaced students. The comments are summarized after the finding. The full text of MDE's comments on the draft report is included as an attachment to the report.

FINDING – MDE Reported Inaccurate or Unsupportable Displaced Student Counts

In our review of the supporting documentation for the displaced students at six selected LEAs, we found that (1) all six LEAs incorrectly identified students as displaced, or did not maintain documentation adequate enough to prove the students' displaced and/or SWD status; (2) five LEAs counted displaced students twice in the same quarter; and (3) the number of displaced students reported to MDE was not completely supported for all six LEAs. As a result, all six LEAs reported inaccurate information to MDE in support of the State's report to the Department. Based on the inaccurate reporting, MDE may have received over \$3.1 million in excess of what the EIA grant allowed for the educational needs of the students displaced by the hurricanes. The total projected questionable dollars due to misidentification of displaced students at the six LEAs reviewed is \$2,723,270. The total actual questionable dollars due to duplicate counts of displaced students is \$124,500; and due to unsupportable final displaced student counts is \$344,625.

According to the Department's guidance in Volume I of *Frequently Asked Questions - EIA for Displaced Students*, "displaced students" are students who

- a. on August 22, 2005, resided in, and were enrolled or were eligible to be enrolled in a school in an area for which the Federal Government later declared a major disaster related to Hurricane Katrina or Hurricane Rita; and
- b. as a result of their displacement by the storm, are enrolled in different schools on a date on which an enrollment count is taken for the purpose of the EIA program.

The definition also includes students who, on the date a count is taken, are enrolled in a school in their original LEA but, because of the impact of one of the hurricanes, are not in their original school.

For recordkeeping requirements, Volumes I and II of *Frequently Asked Questions - EIA for Displaced Students*, refer to 34 CFR § 80.42. The referenced regulation requires grantees to maintain, for three years, all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub-grantees, which are required to be maintained by the terms of program regulations, grant agreements, or otherwise reasonably considered to be pertinent.

From the list of displaced students provided by each of the six selected LEAs – Jackson County, Moss Point, Pascagoula, Harrison, Jackson Public, and Biloxi Public – we pulled two statistical random samples of displaced students for each of the first three quarters of the 2005-2006 school year. The samples included both public and non-public school students with separate samples for SWD and Non-SWD for each quarter. We reviewed documentation provided by the LEAs in support of the students' displaced and/or SWD status for each student included in our sample. Documentation reviewed included registration forms; permanent records; Individualized Education Plans (IEP); and enrollment, withdrawal, and grade level information from the Mississippi Student Information System (MSIS) or the LEAs' local student information system. From our student samples, we found students misidentified as displaced and/or SWD. Separate from our sample review, we found students counted twice in the same quarter; and that the displaced student counts for all six LEAs were less than the counts reported to MDE.

Misidentified Displaced Students

Our review of supporting documentation at six LEAs for the displaced student samples identified students incorrectly classified and counted as displaced and/or SWD. Specifically, we found

- Students reported as displaced, but the LEA's documentation showed that they did not meet the Department's definition of displaced.
- Students reported as displaced, but the LEA's documentation was inadequate to determine whether the student met the definition.
- Displaced students reported as SWD, but the LEA had no documentation or inadequate documentation to support the SWD status.

Related to students not meeting the Department's criteria established in its definition of a displaced student, we found that some of the students did not qualify because (1) students' enrollment dates were outside of required count dates; (2) students transferred from places not considered a

hurricane disaster area; (3) students were displaced from their homes but were attending their original school on required count dates (their school was still intact); and/or (4) non-public students' files did not include the required parent certification form. Tables 1 through 3 present the results of the displaced student tests.

Table 1: Quarter 1 Results

LEAs	Non-SWD		SWD		
	Population ¹	Errors/ Sample Size	Population	Errors/ Sample Size	(Of Total Errors) Errors due to SWD Documentation
Jackson County	1154	0/50	113	5/50	0
Moss Point	771	24/50	14	10/14	0
Pascagoula	779	0/50	92	0/47	0
Jackson Public	812	4/50	49	5/26	3
Harrison	969	1/50	99	2/50	0
Biloxi	656	1/50	40	1/20	0
Totals Errors		30		23	3

Table 2: Quarter 2 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	Population	Errors/ Sample Size	(Of Total Errors) Errors due to SWD Documentation
Jackson County	1236	2/50	122	2/50	0
Moss Point	860	19/50	162	11/50	0
Pascagoula	516	0/50	98	3/50	2
Jackson Public	782	2/50	62	7/31	3
Harrison	1226	1/50	147	2/50	1
Biloxi	714	1/50	52	2/26	0
Totals Errors		25		27	6

¹ The numbers in the population columns represent the actual number of displaced student names that each of the six LEAs provided to the audit team. However, the populations were decreased by the number of duplicate students for projection purposes because we question actual EIA funds related to duplicate students in the following section.

Table 3: Quarter 3 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	Population	Errors/ Sample Size	(Of Total Errors) Errors due to SWD Documentation
Jackson County	1336	7/50	127	2/50	0
Moss Point	1005	24/50	161	17/50	0
Pascagoula	584	0/50	112	0/50	0
Jackson Public	705	0/50	33	2/32	1
Harrison	1405	0/50	200	1/50	0
Biloxi	830	2/50	68	1/34	0
Totals Errors		33		23	1

The total questionable EIA funding is \$253,875² related to the actual errors that we found in the samples. After projecting the errors to the universe of displaced students, we project that MDE received \$2,723,270³ in EIA funding for ineligible displaced students. The projection is limited to the first three quarters of the 2005-2006 school year, and to the six LEAs reviewed. The sampling results of each LEA contributed to the total, projected ineligible EIA funding as follows: Jackson County - \$394,580; Moss Point - \$1,957,130; Pascagoula - \$5,150; Harrison County - \$87,390; Jackson Public - \$173,120; and Biloxi Public - \$105,900.

Displaced Students Counted Twice in Same Quarter

We found that five of the LEAs reviewed double-counted some displaced students. We reviewed student lists⁴ supporting the final displaced student counts that the six selected LEAs reported to MDE for all four quarters of 2005-2006. We identified students who were counted twice in the same quarter by the same LEA, and students counted by two different LEAs for the same quarter. For all four quarters combined, one LEA double-counted 30 students, another LEA double-counted 12 students, and three other LEAs double-counted three students. In addition, we found that 21 students were counted by two different LEAs for the same quarter. The results are shown in Table 4 by the error identified, and by LEA with the exception of the last category of errors with students counted by two different LEAs.

² We calculated the total based on the errors identified in the three tables – \$1,500 x 88 Non-SWD in error, plus \$1,875 x 73 SWD in error, less \$1,500 x 10 SWD whose error is due to inadequate SWD documentation (the subtraction is because we are only questioning the difference of \$375 between the SWD and Non-SWD funding level for the 10 students included in the 73 SWD number).

³We are 95% confident that the ineligible funding MDE received totaled \$2,723,270 +/- \$416,880.

⁴ Student lists were as of August 2006.

Table 4: Double Counting of Displaced Students

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Non-SWD Counted Twice by Same School	3 <i>(Harrison Co.)</i>	3 <i>(Harrison Co.)</i>	3 <i>(Harrison Co.)</i>	5 <i>(Harrison Co. = 3 Jackson Co. = 1 Pascagoula = 1)</i>
Same Student Counted as Both SWD and Non-SWD	3 <i>(Pascagoula = 2 Jackson Pub. = 1)</i>	1 <i>(Pascagoula)</i>	28 <i>(Jackson Pub.)</i>	0
Same Student Counted by Two Different Schools in Same LEA	4 <i>(Jackson Co. = 1 SWD and 1 Non-SWD; Jackson Pub. = 1 SWD; Biloxi Pub. = 1 Non-SWD)</i>	1 <i>(Biloxi – Non-SWD)</i>	1 <i>(Biloxi – Non-SWD)</i>	0
Student Counted by Two Different LEAs	6 <i>(2 SWD; 4 Non-SWD)</i>	5 <i>(1 SWD; 4 Non-SWD)</i>	7 <i>(2 SWD; 5 Non-SWD)</i>	3 <i>(1 SWD; 2 Non-SWD)</i>

Based on the Department’s allowance for each SWD of \$1,875 and for each Non-SWD of \$1,500, the total questionable EIA funding is \$124,500 –

- *Harrison County* - \$18,000 (12 Non-SWD x \$1,500)
- *Jackson County* - \$4,875 (2 Non-SWD x \$1,500 and 1 SWD x \$1,875)
- *Jackson Public* - \$56,250 (30 SWD x \$1,875)
- *Pascagoula* - \$7,125 (1 Non-SWD x \$1,500 and 3 SWD x \$1,875)
- *Biloxi* - \$4,500 (3 Non-SWD x \$1,500)
- *MDE* - \$33,750 (15 Non-SWD x \$1,500 and 6 SWD x \$1,875)

For the duplicate reporting that occurred across LEAs, the questioned cost is at the state level because MDE needs to determine which LEA incorrectly reported the student on the applicable count date and, therefore, should return the funds.

LEAs’ Displaced Student Counts Not Completely Supported

We asked each of the six LEAs to provide a list of the displaced students comprising the counts it submitted to MDE for the first three quarters of the 2005-2006 school year. The six LEAs provided us with the lists of student names in support of the displaced student counts reported to MDE.

However, the number of students on these lists did not match the numbers reported to MDE. To provide the LEAs time to correct the counts before evaluating them, we delayed our review until after the final counts were due and final revisions made. Even with this additional time, the revised number of displaced students, which was current as of August 2006, was less than the final counts reported to MDE for all six LEAs. The lists of student names that each of the LEAs provided in support of their displaced student counts were different from the counts provided to MDE for both the initial and the final counts.

As detailed in Table 5, the lists of student names that each of the LEAs provided in support of their initial displaced student counts for quarters one through three, were different from the counts provided to MDE by 2 to 171 student names for five of the LEAs, and matched exactly for the sixth LEA. The lists of student names that each of the six LEAs provided in support of their final displaced student counts for quarters one through four, were short by 1 to 14 student names for four LEAs, short by 198 names for one LEA, and matched exactly for the sixth LEA. Because the additional students on MDE’s list were not in our sample universe, the “phantom” students could not be reviewed in our samples or included in our projections, resulting in the classification of the total amount of EIA funding associated with the difference as questionable.

Table 5: Comparison of Final Counts Reported

LEAs	Initial Counts for Qtrs. 1 - 3			Final Counts for Qtrs. 1 - 4		
	Total # Reported to MDE	Total Student Names Provided by LEA	Total Student Names Not Provided ⁵	Total # Reported to MDE (as of August 2006)	Total Student Names Provided (as of August 2006)	Total Student Names Not Provided ⁵
Jackson County	4190	4101	95	5690	5525	196
Moss Point	2994	2973	17	3729	3715	14
Pascagoula	2170	2187	9	2882	2879	1
Harrison	4238	4067	171	6006	5992	5
Jackson Public	2469	2476	2	3213	3183	10
Biloxi	2374	2374	0	3297	3294	0

The total questionable EIA funds relating to unsupportable final displaced student counts for all four quarters is \$344,625 –

⁵ The columns labeled “Total Student Names Not Provided” will not necessarily be the difference between the first two columns. LEAs reported four categories of displaced students – SWD and Non-SWD for both public and non-public schools. The differences in the counts reported to MDE and the names provided in support of those counts were varied – LEAs provided more student names than what was reported in their application for some of the categories of students, but also provided fewer student names for some other categories of students. The differences cannot be offset – for example, Jackson County had 95 students missing on the 1st and 4th quarter Non-SWD rosters, but had 6 more student names on the 2nd quarter Non-SWD roster. The number of student names missing from one population and the number of extra student names provided for another population cannot be offset to come up with a result of 89 student names missing because a total of 95 students are not accounted for on the 1st and 4th quarter Non-SWD rosters. As such, the funding provided to Jackson County for those 95 missing students is questionable.

- *Jackson County* - \$297,375 (187 Non-SWD x \$1,500 and 9 SWD x \$1,875)
- *Moss Point* - \$21,000 (14 Non-SWD x \$1,500)
- *Pascagoula* - \$1,500 (1 Non-SWD x \$1,500)
- *Harrison County* - \$9,000 (1 Non-SWD x \$1,500 and 4 SWD x \$1,875)
- *Jackson Public* - \$15,750 (8 Non-SWD x \$1,500 and 2 SWD x \$1,875)
- *Biloxi Public* - \$0

MDE and the six LEAs had weak controls over displaced student counts, and MDE initially had no process for oversight and monitoring to test the reliability of the information received from LEAs. The following are specific examples of weak controls over the EIA program, which resulted in the errors identified in our review – students misidentified as displaced; students counted twice in the same quarter; and unsupportable final displaced student counts.

- Before receiving the Department’s definition, MDE provided a definition of displaced student. MDE’s definition included students displaced from their homes, while the Department’s definition only included students displaced from their original school setting. As indicated by the high error rates shown in the tables for Moss Point, it used MDE’s definition and the Department’s to identify displaced students in its quarters one through three counts. Moss Point did not go back and revise its counts even though we notified officials of the error. Pascagoula also used the MDE definition; however, prior to our sample review, it revised the list of students to adjust for the Department’s definition. In addition, both Jackson County and Harrison County officials mentioned that they had initially used the wrong definition of displaced, but adjusted their counts to the correct definition.
- LEAs did not review the supporting documentation maintained at individual schools for the displaced students as part of their monitoring. Pascagoula was the only LEA that required schools to send in documentation supporting students’ displaced status. It compared this documentation to the data in the Mississippi Student Information System (MSIS) on a sample basis. The other five LEAs did not review supporting documentation; they instead relied solely on the data in MSIS as their monitoring tool.
- According to Jackson Public district officials, the Student Administrative Manager System (SAMS) was used to track displaced students within the district. Individual schools in the school district did not keep a physical count of displaced students at their location, and, as such, may not have known the actual number of displaced students enrolled.
- For the first three quarters, Jackson County district officials only requested individual schools to provide displaced student counts. Later, they requested schools to provide the student names to support the counts, which identified discrepancies in the counts. Therefore, for the fourth quarter, the LEA required that the counts and student names be provided at the same time.

In addition, LEA officials attributed some of the errors identified to data entry errors and confusion surrounding the actual count dates. Inadequate controls over EIA program implementation and funding resulted in inaccurate displaced student counts and funding distribution in excess of entitlements, which could jeopardize both the integrity and the mission of the EIA program. Our findings indicate that MDE was not prepared for a disaster of this magnitude nor was it prepared to implement and administer the resulting programs and influx of funds. However, given the circumstance, MDE reacted as quickly as possible to distribute the EIA funds to LEAs to offset costs associated with the displaced students. Although MDE had limited control over the initial displaced student counts, it subsequently developed and implemented a monitoring plan to better ensure the accuracy of those counts.

All six LEAs reviewed either misidentified displaced students, double-counted students or could not provide student names to support the final counts. The total projected questionable dollars due to misidentification of displaced students at the six LEAs reviewed is \$2,723,265. The total actual questionable dollars due to duplicate counts of displaced students is \$124,500; and due to unsupported final displaced student counts is \$344,625.

RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require MDE to

- 1.1 Provide support or repay the \$2,723,270 in projected questionable EIA funds relating to the misidentification of displaced students.
- 1.2 Provide support or repay the \$124,500 in questionable EIA funds relating to the double counting of displaced students.
- 1.3 Provide support or repay the \$344,625 in questionable EIA funds relating to final displaced student counts for all four quarters.
- 1.4 Review their final lists of displaced students for all four quarters and report necessary adjustments to MDE and the Department. Return any ineligible funds identified as a result of student count adjustments, if applicable.

MDE Comments

In its comments to the draft report, MDE agrees that the six LEAs reviewed by the audit team reported inaccurate displaced student counts to MDE, and that MDE reported these inaccurate counts to the Department. However, MDE's response stated that it does not agree with using a projection method to question EIA funds relating to misidentification of displaced students, and asks that we reconsider our use of the projection method based on the following.

- Four of the six LEAs (Harrison, Biloxi, Jackson Public, and Pascagoula) have already adjusted their displaced student counts to account for 1) the misidentified students noted in the report for

which additional supporting documentation could not be provided, 2) the double-counting of displaced students, and 3) the unsupported final displaced student counts. According to MDE, the four LEAs had never drawn down their entire EIA award in the Department's Grant Administration and Payment System (GAPS), and the remaining balances cover either all or some of the questionable EIA funds relating to actual errors identified in the audit report. The program has been closed-out in GAPS (meaning the funds are going back to the Department); therefore neither MDE nor the four LEAs have control or access to the funds.

- The remaining two LEAs (Jackson County and Moss Point) performed a 100% review of their displaced student counts/student lists for all four quarters, just prior to January 2007. They submitted checks to MDE (Jackson County - \$344,318 and Moss Point - \$1,753,635) to return the funds related to the errors identified. The two LEAs adjusted the final displaced student counts. MDE added that independent auditors audited the corrected student counts and provided assurance that the final displaced student counts are accurate.

MDE stated that it is in the process of implementing the recommendation that the LEAs review their final lists of displaced students for all four quarters and report necessary adjustments to the Department, along with applicable ineligible funds. MDE has requested and received final displaced student counts and student lists for all six LEAs reviewed and will return ineligible funds identified after finalizing the adjustments related to the final counts.

MDE stated that it has worked with the Department's Program Office, OIG, LEAs, and auditors to ensure the integrity of the EIA program. MDE added that it has made all corrections noted by OIG auditors, has monitored recipients of EIA funds, and is currently resolving all necessary corrective actions.

OIG Comments

MDE's response did not require changes to the report findings and recommendations because MDE concurred with the finding and the recommendations, but did not concur with the return of EIA funds based on a projection method. Although MDE agreed with the recommendation to develop a statewide plan for oversight and monitoring of new programs, we deleted the recommendation based on comments from the Department. In addition, we recalculated the displaced student count error projections to ensure errors were not duplicated in the finding.

In response to Recommendation 1.1, requiring support or repayment of the projected questionable EIA funds relating to the misidentification of displaced students, MDE's corrective action at Jackson County and Moss Point is sufficient to partially address the recommendation when MDE remits the returned funds from these LEAs to the Department. If MDE addresses the remaining balance in the recommendation at the remaining four LEAs reviewed in the same manner – conducting a 100 percent review of their displaced student counts/student lists for all four quarters, returning EIA funds relating to the corrections made as a result of the review, and completing an independent audit of the corrected displaced student counts – it will have fully addressed the recommendation.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if (1) the MDE and six selected LEAs established adequate systems of internal control to provide accurate displaced student count data; (2) MDE established an adequate system of internal control to make accurate allocations of EIA funds; and (3) LEAs used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations. In addition, we evaluated MDE's systems of control over the administration of the Assistance for Homeless Youth Program. Our audit covered the 2005-2006 school year for both EIA and Homeless Youth programs.

We reviewed MDE and six of its LEAs. Our review covered the administration of the EIA Program and the Assistance for Homeless Youth Program for the award period September 1, 2005 through September 30, 2006. The six LEAs selected for review were Jackson County, Moss Point, Pascagoula, Harrison, Jackson Public, and Biloxi Public. We selected these LEAs because, according to our initial review of displaced student counts for quarters one through three combined, they had the highest displaced student counts, comprising 41 percent of Mississippi's initial total number of displaced students.

To determine the policies, procedures, and controls over MDE's and the LEAs' administration of the EIA Program, we obtained and reviewed laws, regulations, policies, and procedures; the methodology for allocating the funding; EIA guidance and clarification from Department staff; and MDE's monitoring plan. We also interviewed staff and officials at MDE and the six selected LEAs. We recalculated MDE's allocation spreadsheets for each of the four quarters to verify the accuracy of the EIA funding distribution.

To determine whether there was adequate documentation supporting the students' displaced and/or SWD status, we pulled two statistical random samples of displaced students for each of the first three quarters of the 2005-2006 school year (samples included both public and non-public school students) for each of the six selected LEAs. For the three quarters, the six selected LEAs provided the audit team with a universe of 18,091⁶ displaced students, which accounted for \$27,793,125 in EIA funding received by MDE. To test MDE's compliance with EIA funding regulations, we selected a random sample of 1,630 students totaling \$2,718,750 in EIA funding from the universe of displaced students at the six LEAs. We obtained and reviewed documentation supporting the students' displaced and SWD status. Tables 1 through 3 display the populations, sample sizes, and errors. The sample results were projected to the populations of student names provided by the LEAs to determine the group total projected questionable dollars for the misidentification of displaced students. We provided individual LEA information to demonstrate the impact the sampling results of each LEA had on our total estimated amount for the six LEAs combined. At the group level, the precision was sufficient to conclude that MDE received total ineligible funding of

⁶ The actual number of student names that the six LEAs provided to the audit team was 18,178; however, for projection purposes, we decreased the universe by the number of duplicate students discovered. We questioned actual EIA funds related to the duplicate students discovered.

about \$2,723,270 at the 95 percent confidence level. The precision percent associated with this projection is plus or minus 15.31 percent or \$416,880.

To evaluate the accuracy of MDE's counts submitted to the Department, we obtained the spreadsheets supporting MDE's first displaced student count application and traced the totals from the spreadsheet to the totals reported in the application MDE submitted. We also traced a judgmental sample of 10 LEAs' (top 10 LEAs with highest number of displaced students) application counts to the counts recorded on the spreadsheet to determine whether the counts on the LEAs' applications matched those recorded on the spreadsheet. We were unable to obtain the spreadsheets supporting MDE's second through fourth application submissions because MDE did not maintain spreadsheets supporting those student counts. MDE did not retain a copy of the supporting spreadsheets after each student count submission to ED, but rather updated the original spreadsheet with each revised count from the LEAs. Without the audit trail for the prior counts, we relied on our validation of MDE's final submission of displaced student counts. The spreadsheet supported MDE's revised counts for all four quarters; therefore, the issue that prior spreadsheets did not support the counts submitted to the Department became immaterial to the audit.

To determine whether the LEAs charged expenditures only to the cost categories allowed by the terms of the grant and applicable laws and regulations, we obtained and reviewed a listing of recorded EIA expenditures and EIA drawdown information (as of September 2006), for each of the six selected LEAs. We looked at the cost categories to which the EIA funds were charged to ensure that the categories used were those allowed by the terms of the grant. We did not test individual transactions to ensure that the expenses charged to the cost categories were accurately or appropriately recorded. Since MDE used the majority of both Restart and EIA program funding on payroll, we obtained a summary of five of the six selected LEAs' Restart funding and expenditure information (one of the six LEAs did not participate in the Restart program), including the payroll information for the 2005-2006 award year. We compared the LEAs' total funding/drawdowns for both the EIA and Restart programs to the total payroll for the year to ensure that the LEAs' payroll expense exceeded the combined funding from both programs.

For each LEA site visit, we obtained and reviewed student counts and student lists for all four quarters of 2005-2006, and compared the lists of student names provided in support to the student counts submitted to MDE. We also used the final lists of student names to determine whether there were any duplicate students reported within a particular LEA or across the six selected LEAs in the same quarter. We compared the students' names, social security numbers, MSIS identification numbers and birthdates to identify duplicate students.

To evaluate MDE's controls over the administration of the Assistance for Homeless Youth program, we obtained and reviewed applications of the 14 LEAs that applied for program funds. We also traced pertinent information from those applications to the allocation spreadsheet to determine whether the allocation methodology was valid and the distribution accurate. We also interviewed the MDE personnel/contractor responsible for the administration of the Homeless Youth Program, and gathered and reviewed policies and procedures, to identify the controls over administering the program and allocating the funds, and to evaluate MDE's procedures for monitoring the participating LEAs.

During the audit, we relied on student information in the Software Technology, Inc. (STI) system and MSIS for the sample of displaced students attending school in Jackson County and Moss Point, with permanent records having been destroyed by the hurricane. Jackson County uses STI as their local student information system and Moss Point used SAMS as their local student information system. Both LEAs periodically upload the student information to MSIS, which is the statewide student information system. To test the reliability of the electronic student databases, we compared the student information in STI and SAMS to the information in MSIS for the applicable sampled students to make sure the information matched. Specifically, we verified student names, MSIS identification numbers, enrollment and withdrawal dates, and grade level. Based on the results of our data reliability tests, we determined that the information in STI, SAMS, and MSIS was sufficiently reliable to use in meeting our audit objectives.

We performed on-site audit work during various weeks throughout February 2006 to August 2006. We visited MDE in Jackson, MS, and the selected LEAs – Jackson County School District in Vancleave, Moss Point School District in Moss Point, Pascagoula School District in Pascagoula, Harrison County School District in Gulfport, Jackson Public School District in Jackson, and Biloxi Public School District in Biloxi. An exit conference was held with MDE officials on November 30, 2006. The audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Kerri L. Briggs
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Room 3W323
Washington, D.C. 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

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

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

Attachment



Mississippi Department of Education

Hank M. Bounds, Ph.D., State Superintendent of Education

Beth H. Sewell, Ed.D., Executive to the State Superintendent

Office of Innovation and School Improvement

Sonya M. Amis • Associate State Superintendent • 601-359-3768 • FAX: 601-359-3712

March 21, 2007

**Control Number
ED-OIG/A04G0012**

Ms. Denise M. Wempe
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

Dear Ms. Wempe:

In response to your February 9, 2007, Draft Audit Report, entitled *Audit of Mississippi Department of Education's (MDE) Emergency Impact Aid (EIA) Program Controls and Compliance*, we submit the following response.

Although we do not agree with using a projection method, we acknowledge that inaccurate displaced student counts were reported to MDE from the six LEAs you reviewed (Biloxi, Harrison Co., Jackson Public, Jackson Co., Moss Point, & Pascagoula). Based on the numbers reported to MDE, we reported the numbers we received from the LEAs to the United States Department of Education to meet their established timeframes. Your review of the six LEAs and our monitoring of the other recipients did identify errors with reported displaced student counts. When analyzing the results of the displaced student counts noted in the monitoring reports collectively, we found that overall the LEAs in the state of Mississippi cautiously underclaimed the number of displaced students they actually served.

Your initial report indicated that all six LEAs reviewed either misidentified displaced students, double-counted students or could not provide student names to support the final counts. The total projected questionable dollars due to misidentification of displaced students at the six LEAs reviewed is \$2,786,400. The total actual questionable dollars due to duplicate counts of displaced students is \$124,500; and due to unsupported final displaced student counts is \$429,750.

In response, the LEAs have provided additional support and have adjusted their displaced student counts when support was not available. Some LEAs have already submitted payment for unsupported final displaced student counts and MDE will collect any additional overpayments once we have completed the validation of all final counts compared to the name lists and supporting documentation.

"Quality Education for Every Child"

Central High School Building • 359 North West Street • P.O. Box 771 • Jackson, MS 39205-0771

Your Draft Report Noted the Following Recommendations:

1.1 Provide support or repay the \$2,786,400 in projected questionable EIA funds relating to the misidentification of displaced students.

Response: The Mississippi Department of Education (MDE) has contacted each of the LEAs for the necessary support. In addition, in those cases where support was not available, we have requested repayment of EIA funds relating to the misidentification of displaced students. MDE currently has received supporting documentation from some of the LEAs as it relates to the findings noted. In cases where the support was not available, the LEAs have submitted payment to MDE to cover questioned EIA funding. See details of repayments in Attachment 1.

Again, MDE requests that OIG reconsider the use of the projection method. The LEAs have adjusted their numbers for the errors noted for the misidentification of displaced students and provided funding to cover the actual errors noted. If the projections are used to calculate questionable costs, we request an opportunity to evaluate this process. Please provide the details of how the projections were calculated.

1.2 Provide support or repay the \$124,500 in questionable EIA funds relating to the double counting of displaced students.

Response: The Mississippi Department of Education has contacted each of the LEAs for the necessary support. In addition, in those cases where support was not available, we have requested repayment of EIA funds relating to the double counting of displaced students. The Mississippi Department of Education has received adjusted counts for the LEAs and recovered EIA funds from the LEAs to cover the students that were double counted. In addition, the adjusted student counts and repayment of questioned EIA funding associated with the double counting corrects this recommendation.

1.3 Provide support or repay the \$429,750 in questionable EIA funds relating to final displaced student counts for all four quarters.

Response: The Mississippi Department of Education has contacted each of the LEAs for the necessary support. In addition, in those cases where support was not available, we have requested repayment of EIA funds relating to final displaced student counts for all four quarters. This is the most accurate method of determining any overclaims. MDE is reviewing final displaced student counts for these six LEAs and comparing our numbers to the displaced names lists to ensure accuracy in the final reported numbers. We will make all necessary adjustments to these counts and request any additional EIA repayments. See details of repayments in Attachment 1.

1.4 Review their final lists of displaced students for all four quarters and report necessary adjustments to MDE and the Department. Return any ineligible funds identified as a result of student count adjustments, if applicable.

Response: As detail in our response to Recommendation 1.3, the Mississippi Department of Education has contacted the six LEAs for the necessary support. In those cases where support was not available, we have requested repayment of EIA funds relating to final displaced student counts for all four quarters. We have requested and received the Final Lists of Displaced Students for all four quarters and will report necessary adjustments to the USDOE along with the return of ineligible funds identified as a result of the student count adjustments. MDE will make payment to USDOE once we finalize all adjustments to the displaced student counts. This is inclusive of the adjustments necessary as a result of MDE's monitoring efforts. See details of repayments in Attachment 1.

1.5 Develop a Statewide plan for oversight and monitoring of new programs, including a program initiated to address an unexpected event, such as a disaster. The plan should include a process for administering the associated funding, and disseminating guidance to the LEAs to assist in implementing the program and ensuring the accuracy of data.

Response: MDE will develop a statewide plan for oversight and monitoring of new programs, including a program to address unexpected events, such as disasters. We have established processes for administering the associated funding and disseminating guidance to the LEAs. Although we agree with your statement that MDE was not prepared for a disaster of this magnitude, nor was our country as a whole, we take exception to the statement that we were not prepared to implement and administer the resulting programs and influx of funds. A statement of this nature cuts at the very fiber of the work and effort of employees who expedited the program funding and initiatives amidst all of the uncertainty and federal regulatory changes that occurred at the inception of this program and throughout the year. MDE has worked profusely with the Program Office, OIG, LEAs and auditors to ensure the integrity of the Emergency Impact Aid Program. Unlike normal operating procedures when audits are conducted at year end or after the closeout of a grant, consider that your audit was conducted during the current program year before all necessary corrections and adjustments could be made. Subsequently, MDE has made all corrections noted by OIG auditors and has monitored recipients of EIA funds and is currently resolving all necessary corrective action.

We trust that you will consider the actions we have taken to correct the displaced student counts as an acceptable alternative to using the projection method identified in 1.1. We have set a target date of May 31, 2007 to finalize all corrective action for the Emergency Impact Aid Program. Any excess funding will be returned the U. S. Department of Education at that time. If you have any questions, or if any additional information is needed, please contact us at (601) 359-1972.

Sincerely,

/s/

Sonya Amis, Associate State Superintendent
Mississippi Department of Education

Attachments

- c: Hank M. Bounds, State Superintendent of Education
- Beth H. Sewell, Executive to the State Superintendent, MDE
- Selina Boyd, Financial Analyst, USDOE-OIG
- James A. Hart, School Finance Officer, MDE