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Cheri Pierson Yecke, Ph.D., Commissioner
Minnesota Department of Education
1500 Highway 36 West
Roseville, MN 55113-4266

Dear Dr. Yecke:

This **Final Audit Report** presents the results of our audit of Minnesota's local educational agencies' (LEA) allocations of Elementary and Secondary Education Act, as amended, Title I, Part A, funds to schools for the period July 1, 2001, through June 30, 2002 (2001-2002 school year). Our objective was to determine whether LEAs in the State of Minnesota complied with Title I, Part A (Title I), of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Improving America's Schools Act of 1994,[1] and regulations governing the allocation of funds to schools.

In response to our draft audit report, the Minnesota Department of Education agreed to implement both of our recommendations (See **Attachment**).

AUDIT RESULTS

For the 2001-2002 school year, the State of Minnesota received $95,313,310 (Basic and Concentration grants) in Title I funds and allocated $90,334,593 to 343 LEAs. Our audit of 10 LEAs' allocations of $29,196,558 to schools disclosed that Minnesota LEAs generally complied with the law and applicable regulations governing the allocation of Title I funds to schools. The LEAs generally (1) allocated Title I funds to the schools with the highest percentages of poor children (that is, in rank order), (2) allocated Title I funds only to eligible schools, (3) ensured that proper poverty measures were used and that lower poverty schools were not receiving higher per-pupil allocations than higher poverty schools, and (4) ensured the data used to identify and count eligible poverty children was inclusive (private school, charter school, and home school children). Our audit also disclosed that the Minnesota Department of Children, Families, and Learning's (CFL)[2] controls over allocating Title I funds to LEAs and monitoring the LEAs' procedures for allocating Title I funds to their schools were sufficient to provide

[1] The ESEA was reauthorized by the No Child Left Behind Act of 2001 on January 8, 2002.
[2] CFL, the state educational agency in Minnesota at the time of our audit, is now the Minnesota Department of Education.

reasonable assurance that LEAs complied with the law and regulations governing the allocation of Title I funds to schools.

However, 2 of the 10 LEAs we audited did not allocate Title I funds entirely in accordance with the law and applicable regulations. The Minneapolis LEA used student counts to allocate Title I funds to public schools that were not the same as the counts used to rank its schools. Instead of using the October 1, 2000, counts that it used to rank its schools, the Minneapolis LEA used projected enrollment counts for the fall of 2001. This resulted in the incorrect allocation of $683,084. The use of different counts increased the allocations made to 26 schools by $257,914 and decreased the allocations made to 36 schools by $425,170. The Park Rapids LEA allocated higher per-pupil amounts to schools with lower concentrations of poverty than it allocated to the school with the highest concentration of poverty. This resulted in the school with the highest concentration of poverty receiving $7,148 less than it should have received.

Finding No. 1 One LEA Did Not Use the Same Student Counts to Rank Its Schools and Allocate Title I Funds

The Minneapolis LEA did not use the same student counts to allocate Title I funds to 62 public schools that it used to identify and rank eligible schools. For the 2001-2002 school year, the Minneapolis LEA allocated $10,157,458[3] of Title I funds to 63 public schools using projected enrollment counts for the fall of 2001. The Minneapolis LEA multiplied each school's projected enrollment counts for the fall of 2001 by the school's poverty percentage to arrive at the projected count of students eligible for free and reduced priced meals. It then multiplied this projected count by the per-pupil dollar amount ($480) to arrive at the amount of Title I funds it would allocate to each school for the 2001-2002 school year. The Minneapolis LEA then added one percent for parent involvement to each school's allocation. This process is contrary to the law. When allocating Title I funds, the Minneapolis LEA should have used the same student counts that it used to calculate each school's poverty percentage and rank order its schools. Those counts were taken from the MINCRIS 00-01 Meal Participation (MINCRIS) report.[4]

Pursuant to ESEA, Title I, Part A, Section 1113(a)(5), the LEA shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B Russell National School Lunch Act, . . . or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to

[3] In addition to the $10,157,458 of Title I funds allocated to 63 public schools, the Minneapolis LEA allocated $580,800 in Title I funds to 18 public alternative schools.

[4] The MINCRIS report, based on October 1, 2000, student counts, includes enrollment counts and free and reduced priced meal student counts used to compute school poverty percentages and student counts that LEAs are to use to allocate Title I funds to schools. CFL, in early April, provides the LEAs with the MINCRIS report. The report shows the total K-12 student enrollment count and the count of students eligible for free and reduced priced meals by individual public and public alternative school located within the LEA. CFL generates the MINCRIS report from the Minnesota Automated Reporting Student System (MARSS) using student counts for grade levels K-12 and the students' economic indicator.

all school attendance areas in the LEA to identify eligible school attendance areas, determine the ranking of each area, and determine allocations under subsection (c).

The Minneapolis LEA's use of different student enrollment counts resulted in the incorrect allocation of $683,084. The allocations made to 26 public schools were inflated by $257,914. For example, as a result of the Minneapolis LEA using a projected enrollment count, one school received $41,693 more in Title I funds than it would have received if the Minneapolis LEA used the count of students eligible for free and reduced meals from the MINCRIS report. In addition, the allocations made to 36 public schools were reduced by $425,170. For example, as a result of the Minneapolis LEA using a projected enrollment count, one school received $30,542 less in Title I funds than it would have received if the Minneapolis LEA used the count of students eligible for free and reduced meals from the MINCRIS report.

According to the Minneapolis LEA official who compiles the projected enrollment counts, the Minneapolis LEA used projected enrollment counts because the counts represented a more up-to-date count of the schools' enrollments for the 2001-2002 school year. The projected enrollment counts for the fall of 2001 were as of April 4, 2001, instead of October 1, 2000. The projections were derived by grade progression using a weighted moving average methodology. The estimated enrollment counts are done for planning purposes to determine how many classrooms are needed by grade and building using a class size of 19. The Minneapolis LEA official who compiled the projected enrollment counts stated that the estimates are becoming more difficult and varied because of the increasing number of Charter Schools and other options (Open enrollment, Student Choices) available to students.

Recommendation

We recommend that the Office of Elementary and Secondary Education direct the Minnesota Department of Education to

1.1 require the Minneapolis LEA to use the same student enrollment counts to allocate Title I funds to schools that it uses to rank schools.

Finding No. 2 One LEA Allocated Higher Title I Per-Pupil Amounts to Schools with Lower Concentrations of Poverty Than It Allocated to the School with the Highest Concentration of Poverty

For the 2001-2002 school year, the Park Rapids LEA allocated higher per-pupil amounts to lower ranked schools than it allocated to the school with the highest concentration of poverty. The poverty percentages for the Park Rapids LEA's three Title I eligible schools were 51.04 percent, 49.71 percent, and 47.74 percent. The Park Rapids LEA's Title I application showed that it (1) requested $303,961 of Title I funds and (2) had 793 students eligible for free and reduced priced meals (a per-pupil amount of $383.31). In its Title I application, the Park Rapids LEA indicated that it allocated $303,461 of Title I

funds to the three schools. However, the final allocation was based on a count of 610 and only totaled $233,819, a difference of $69,642.

When we asked about the difference, the Park Rapids Title I Coordinator provided us with information that showed the Park Rapids LEA expended $299,855 in Title I funds. This amount included salary and fringe benefit costs for a lead Title I teacher ($65,196) and other personnel that the Park Rapids LEA funded with Title I funds for the 2001-2002 school year. The lead Title I teacher's salary and fringe benefit costs were allocated to the three Title I eligible schools in proportion to each school's percentage of students eligible for free and reduced priced meals. Based on the information provided, the amount of Title I funds Park Rapids actually allocated to the school with the highest concentration of poverty was $351.43 per low-income student. The amount allocated to the other two schools was $622.97 per low-income student and $397.12 per low-income student, respectively.

Pursuant to 34 C.F.R. § 200.28(c), an LEA is not required to allocate the same per-pupil amount to each participating school attendance area or school provided the LEA allocates higher per-pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty.

As a result of the Park Rapids LEA allocating higher per-pupil amounts to schools with lower concentrations of poverty, the school with the highest concentration of poverty received a lesser per-pupil amount. If the Park Rapids LEA had allocated Title I funds to all its targeted schools equally, as intended according to its application, the school with the highest concentration of poverty would have received an additional $7,148 in Title I funds.

In preparing its Title I application, the Park Rapids LEA incorrectly showed the actual allocation of Title I funds for the three schools. Although CFL reviews each LEA's Title I application, CFL did not detect Park Rapids' improper allocation.

Recommendation

We recommend that the Office of Elementary and Secondary Education direct the Minnesota Department of Education to

2.1 work with the Park Rapids LEA to ensure that it correctly completes its Title I application and instruct the Park Rapids LEA to review and verify its allocation calculations for accuracy and compliance with governing regulations before submitting the application to CFL.

BACKGROUND

The Title I program is authorized under the ESEA, as amended by the Improving America's Schools Act of 1994, Public Law 103-382.[5] Title I grants are intended to help elementary and secondary schools establish and maintain programs that will improve the educational opportunities of low-income and disadvantaged children. The funds are intended to provide instruction and instructional support for these disadvantaged children so they can master challenging curricula and meet state standards in core academic subjects.

Title I funds are distributed from the U. S. Department of Education (ED) to states based on data that are measured at the LEA and state levels. The state's allocation is the sum of the LEAs' allocations as determined by ED. However, ED's allocations are not the final amounts the LEAs receive because the state must adjust the allocations to

- reserve funds for state administration (up to 1 percent) and for school improvement activities (no more than .5 percent but at least $200,000) and
- account for changes in district boundaries, consolidations, creation of special districts such as charter schools or regional vocational/technical schools that are eligible for Title I funds but not reflected in ED's allocations.

In distributing funds to schools, LEAs are subject to several key restrictions. An LEA must determine which school attendance areas (schools) are eligible to participate in Title I. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent poverty. An LEA also may designate and serve a school in an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school area. When determining eligibility, an LEA must select a poverty measure from among those specified in the statutes. The LEA must use the measure consistently across the LEA to rank all school attendance areas according to their percentage of poverty.

LEAs allocate funds to eligible schools or attendance areas in rank order according to their poverty percentages. An LEA must serve those schools or areas above 75 percent poverty, including any middle or high schools, before it serves any schools or areas with a poverty percentage below 75 percent. Once all schools and areas above 75 percent poverty are served, the LEA may serve lower-poverty areas and schools either by continuing with the LEA-wide ranking or by ranking its schools below 75 percent poverty according to grade-span groupings. An LEA with an enrollment of less than 1,000 students or with only one school per grade span is not required to rank its school attendance areas.

LEAs are not required to allocate the same per-pupil amount to each school. If they choose not to allocate the same per-pupil amount to each school, they must allocate

[5] The ESEA was reauthorized by the No Child Left Behind Act of 2001 on January 8, 2002.

higher per-pupil amounts to poorer schools than they allocate to schools with lower concentrations of poverty. LEAs also may apply for and receive waivers of any of these allocation requirements.

For the 2001-2002 school year, the State of Minnesota received $95,313,310 (Basic and Concentration grants) in Title I funds. Of this amount, CFL allocated $90,334,593 to 343 LEAs. CFL also allocated $2,410,166 to 52 charter schools and 2 cooperative LEAs. The 10 LEAs that we audited received $29,196,558 in Title I funds and allocated those funds to 166 public schools.

OBJECTIVE, SCOPE, AND METHODOLGY

The objective of our audit was to determine whether selected LEAs in the State of Minnesota complied with Title I of the ESEA and regulations governing the allocation of Title I funds to schools. Our audit covered the period July 1, 2001, through June 30, 2002.

To achieve our objectives, we

1. reviewed CFL's management control structure, policies, procedures, and practices applicable to its allocation of Title I funds to LEAs and monitoring of LEAs' allocation of Title I funds to schools;[6]
2. obtained the universe of LEAs from CFL officials;
3. stratified the universe of 343 LEAs[7] based on the amount of Title I funds received into 7 strata, judgmentally selected the 2 largest LEAs (Minneapolis and St. Paul) that made up the first strata, and randomly selected 8 additional LEAs from the 5 next largest strata;
4. obtained information regarding the 10 LEAs' allocation processes and allocations for the 2001-2002 school year;
5. audited each LEA's allocation process and allocation by
   (a) identifying the key people involved in the allocation process,
   (b) obtaining and reviewing copies of the LEA's two most recent Single Audit reports and Management Letters,
   (c) obtaining a list of the LEA's Title I allocations to schools,
   (d) gaining an understanding of the LEA's allocation process and related controls,
   (e) determining whether the LEA allocated Title I funds to schools with the highest percentage of poor children (rank order) and whether the LEA allocated funds only to eligible schools,
   (f) verifying that lower poverty schools were not receiving higher per pupil allocations than higher poverty schools and that the LEA used a proper poverty measure,

[6] Our review of CFL's management controls also included a review of the Minnesota single audit report and financial statements for the year ended June 30, 2001, interviews with staff of the Minnesota Office of the Legislative Auditor, and a review of their audit working papers related to CFL and Title I allocations to LEAs.

[7] We excluded the charter schools and cooperative LEAs from the universe.

(g) verifying that the student count data used in the allocation was accurate and inclusive in accordance with the ESEA and the applicable regulations, and
(h) assessing the reliability of computer-processed data applicable to the LEA's allocations of Title I funds to schools.

In addition, we relied on computer-processed data that CFL used to allocate Title I funds to LEAs. The data we used were the LEA grant allocation amounts and the student enrollment and counts of students eligible for free and reduced priced meals contained in CFL's computerized student database (MARSS). To determine whether this data was reliable, we first assessed the adequacy of the related computer system controls. We then compared the student enrollment count data and student counts for free and reduced priced meals contained in MARSS to the LEA count data for 31 schools from 5 LEAs. Based on our assessment and tests, we concluded that the computer-processed data we were provided was sufficiently reliable for the purposes of our audit.

We conducted our audit at (1) CFL's offices in Roseville, Minnesota; (2) St. Paul Public Schools' offices in St. Paul, Minnesota; and (3) Minneapolis Public Schools' offices in Minneapolis, Minnesota during the period November 19, 2002, through April 24, 2003. We did not visit the other 8 LEAs' offices. We held an exit conference with officials from CFL, the St. Paul LEA, and the Minneapolis LEA on April 24, 2003.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we assessed CFL's management control structure, policies, procedures, and practices applicable to its allocation of Title I funds to LEAs. To make our assessment, we classified CFL's controls into the following categories

- Allocation of Title I funds to LEAs including controls over the completeness and accuracy of student enrollment and free and reduced priced meal counts
- Monitoring LEAs' allocations of Title I funds to schools

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in CFL's Title I management controls. Our study and evaluation did not disclose any material weaknesses related to CFL's administration of the Title I program that indicated Minnesota LEAs and CFL were susceptible to noncompliance with applicable law and regulations.

We did not assess the adequacy of the management control structure of the 10 LEAs that we audited because such assessments were not necessary to achieve our audit's objective. Instead, we obtained an understanding of the processes the 10 LEAs used to allocate Title I funds to schools and determined whether the processes were in compliance with the applicable law and regulations. Our review disclosed two instances of non-compliance

with federal law and regulations that were caused by management control weaknesses at two LEAs. One LEA lacked controls to ensure that it used the same student counts to allocate Title I funds to schools that it used to rank schools. A second LEA lacked controls to provide reasonable assurance that it allocated per-pupil amounts to schools in rank order of their concentration of poverty. These weaknesses and their effects are discussed in the **AUDIT RESULTS** section of this report.

ADMINISTRATIVE MATTERS

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

If you have 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 ED official, who will consider them before taking final action on the audit.

Ronald J. Tomalis,
Chief of Staff to the Under Secretary
U. S. Department of Education
FOB-6, Room 7E300
400 Maryland Avenue, SW
Washington, D.C. 20202

It is ED's policy to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your additional comments or information within 30 days would be greatly 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,

Richard J. Dowd
Regional Inspector General
for Audit Services

Attachment

Attachment

Minnesota Department of Education

September 18, 2003

Richard J. Dowd
Regional Inspector General
for Audit Services
111 North Canal, Suite 940
Chicago, Illinois 60606

Dear Mr. Dowd:

The audit report for Minnesota's local educational agencies' (LEA) allocations of the Elementary and Secondary Education Act, as amended, Title I, Part A, funds to schools for the period of July 1, 2001 through June 30, 2002 was received and reviewed. The department is in agreement with your findings and recommendations. Below are the actions that the Department has taken to ensure that the violations will not re-occur.

Finding No. 1 One LEA did not use the same student counts to rank its schools and allocate Title I funds
The Minneapolis LEA did not use the same student count to allocate Title I funds that it used to identify and rank eligible schools. The agency has provided the regulations and guidance that pertain to the identification, ranking and distribution of Title I funds to individual buildings. In the future, Minneapolis will use the same procedures to identify, rank and distribute funds.

Finding No. 2 One LEA allocated higher Title I per-pupil amounts to schools with lower concentrations of poverty than it allocated to the school with the higher concentration of poverty
The Park Rapids LEA incorrectly allocated funds to schools in the district. In order to ensure that this violation does not occur in the future, the Department has added an additional step to the approval process. The supervisor for each area director will review key sections of the Title I application. Included in this review is the distribution of funds to Title I schools in rank order.

If you have any questions, please contact Ms. Jessie Montano, Director of NCLB Programs in the Division of Federal Programs. She can be reached by email at: jessie.montano@state.mn.us or by phone at 651-582-8784.

Sincerely,

Tammy McGlone
Director of Administrative Services

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