



**UNITED STATES DEPARTMENT OF EDUCATION**  
**OFFICE OF INSPECTOR GENERAL**

Audit Services  
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**ED-OIG/A05G0020**

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** presents the results of our audit of the Alabama State Department of Education's (ALSDE) and two selected Alabama local educational agencies' (LEA) compliance with selected Hurricane Education Recovery Act, Emergency Impact Aid (EIA) program requirements. The objectives of our audit were to determine if the (1) ALSDE and two selected Alabama LEAs established adequate systems of internal control to provide accurate displaced student count data to the U.S. Department of Education (Department); (2) ALSDE established an adequate system of internal control to make accurate allocations of EIA funds; and (3) two selected LEAs used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations. Our audit covered the period September 1, 2005, through September 30, 2006.

We provided a draft of this report to ALSDE for review and comment on March 9, 2007. In its comments, dated April 4, 2007, ALSDE disagreed with our finding and recommendations, stating that the finding is based on an assessment of data that it did not use to request EIA funding. The assessment is based on data from the Software Technology Inc. (STI) system, and ALSDE states that it did not use this data to request EIA funding from the Department. We held a discussion with ALSDE officials on June 26, 2007, to obtain a further understanding of their comments and the data used to request EIA funding.

Where appropriate, we have incorporated into this report summaries of ALSDE's comments and our responses. In response to the comments received and our subsequent discussion with ALSDE officials, we made changes to the report to clarify our use of ALSDE's STI data. However, we did not change our finding or recommendations, because ALSDE did not provide evidence demonstrating the facts presented in the finding are incorrect. ALSDE's written comments are included in their entirety as an attachment to this report.

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## BACKGROUND

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In 2005, Hurricanes Katrina and Rita had a devastating and unprecedented impact on students who attended schools in the declared disaster areas—Louisiana, Mississippi, Alabama, and Texas. Because of the devastating effects, a significant number of students enrolled in schools outside the area in which they resided before the hurricanes. Districts generally enrolled displaced students quickly under difficult circumstances. The large number of displaced students in some districts led to a strain on classroom space, books, teachers, school buses, bus drivers, and counseling services. In addition, displaced students' records often were not immediately available to their new districts. As a result, districts often enrolled students based on information provided by parents about grade level, disability status, and other factors.<sup>1</sup>

In response to these extraordinary conditions, Congress created a one-time only emergency grant for the 2005-2006 school year. On December 30, 2005, the President signed into law the Hurricane Education Recovery Act (Division B, Title IV of P.L. 109-148) (HERA). The legislation authorized three new grant programs to help school districts and schools to reopen quickly and meet the educational needs of displaced students. The HERA programs included (1) Immediate Aid to Restart School Operations; (2) Assistance for Homeless Youth (Homeless Youth); and (3) EIA. The EIA program provided funding to state educational agencies (SEAs) to cover the cost of educating students who were displaced by Hurricanes Katrina and Rita. Congress initially appropriated \$645 million for the EIA program. It then added \$235 million in a supplemental spending bill approved June 15, 2006.

To receive EIA funding, eligible SEAs provided quarterly enrollment counts of displaced students and other information to the Department. HERA defined displaced students as those students who, on August 22, 2005, resided in, and were enrolled in a school in an area which the federal government declared a major disaster area related to Hurricanes Katrina or Rita and, as a result of their displacement by the storms, were subsequently enrolled in a school other than their normal school on specific quarterly count dates.

The Department agreed to make four quarterly payments to the SEAs of \$1,500 per displaced student without disabilities and \$1,875 per displaced student with disabilities. ALSDE established four specific count dates—September 21, 2005; November 21, 2005; January 23, 2006; and March 22, 2006. The Department obligated \$36,605,250 in EIA funds for ALSDE. As of December 28, 2006, ALSDE had provided \$36,355,891 to its LEAs. ALSDE allocated the EIA funds to the LEAs based on their quarterly displaced student counts, providing \$15,706,125 to the Mobile LEA and \$2,262,375 to the Baldwin LEA.

Mobile used its approximately \$15.7 million in EIA funds for personnel, telephone, garbage, electricity, supplies, and transportation expenses. Baldwin used its approximately \$2.3 million in

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<sup>1</sup> GAO-06-680R, Educating and Protecting Children: *Lessons Learned for Protecting and Educating Children after the Gulf Coast Hurricanes.*

EIA funds for portable classrooms, materials and supplies, textbooks, transportation, and personnel expenses.

According to Section 107(e)(1) of the HERA, the authorized uses of EIA funds include compensation of personnel, classroom supplies, mobile educational units, educational services, reasonable transportation costs, health and counseling services, and education and support services. The Department informed the SEAs and LEAs that, while activities and services must be related to serving displaced students, there is no requirement that they be provided only to those students. In addition, LEAs are not required to track expenditures for displaced students separately from their other expenditures. LEAs may make flexible use of EIA funds and use EIA funds for pre-award costs.

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## **AUDIT RESULTS**

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ALSDE established an adequate system of internal control to ensure accurate allocations of EIA funds to eligible LEAs. In addition, the two Alabama LEAs (Mobile and Baldwin) we audited used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable law and regulations.

However, ALSDE and the two LEAs we audited did not establish adequate systems of internal control to provide accurate displaced student count data to the Department by the date (April 30, 2006) final counts were due. Due to the inadequate systems of internal control, ALSDE's quarterly displaced student count data included students who should not have been included in the counts and students whose documentation did not support their classifications as students with disabilities. As a result, ALSDE received about \$4.5 million more in EIA funds than it should have received.

### **Finding: Stronger Controls Needed Over the Displaced Student Count Data**

ALSDE did not report accurate quarterly displaced student counts to the Department. ALSDE's quarterly displaced student counts (1) included students who did not meet the definition of a displaced student, (2) included students classified as students with disabilities without documentation supporting such a classification, (3) included students more than once (duplicates), and (4) were not completely supported by ALSDE's and/or the two LEAs' records.

ALSDE used data from its STI system as a baseline for deriving each LEA's total number of displaced students for each of its quarterly displaced student counts. ALSDE sent the baseline numbers (total count for the quarter, without names) to the LEAs and asked them to confirm or correct the numbers. ALSDE queried the STI data to obtain a list of names for each of the four quarterly displaced public student counts. We used the STI data because a comprehensive list of names did not exist for the quarterly displaced public school student counts. We determined the STI data was sufficient for obtaining a list of names of the displaced public school student counts. The STI data was sufficient because ALSDE used the STI data as the basis for the

quarterly displaced public school student counts. The quarterly displaced non-public student counts ALSDE provided us included names.

**Counts Included Students Who Did Not Meet the Definition of a Displaced Student**

According to the HERA, Subtitle A, Section 107(b)(1), the term “displaced student” means a student who enrolled in an elementary school or secondary school (other than the school that the student was enrolled in, or was eligible to be enrolled in, on August 22, 2005) because such student resides or resided, on August 22, 2005, in an area for which a major disaster had been declared. The Mobile LEA’s quarterly displaced student counts included students whose homes were destroyed, but the students were enrolled in the same school both before and after Hurricane Katrina.

We randomly selected 300 of the 7,480 Mobile students shown as displaced per the STI system and the list of non-public school students ALSDE provided for the counts taken on September 21, 2005, November 21, 2005, and January 23, 2006.<sup>2</sup> We reviewed supporting documentation, including student files, to determine whether the displaced student counts included only eligible students and that the Mobile LEA had documentation to support classifying students as students with disabilities. Of the 300 students, 96, or 32 percent, did not meet the definition of a displaced student because they were enrolled in the same school both before and after Hurricane Katrina (See Table 1).

**Table 1: Mobile LEA Testing of Displaced Students<sup>3</sup>**

	Students Without Disabilities			Students With Disabilities		
Count	Population	Errors/ Sample Size	Error Rate	Population	Errors/ Sample Size	Error Rate
9/21/2005	2,270	17/50	34%	362	16/50	32%
11/21/2005	2,126	15/50	30%	386	17/50	34%
1/23/2006	1,938	14/50	28%	398	17/50	34%
<b>TOTALS</b>	<b>6,334</b>	<b>46/150</b>	<b>31%</b>	<b>1,146</b>	<b>50/150</b>	<b>33%</b>

According to *Volume I Revised, Frequently Asked Questions, Emergency Impact Aid for Displaced Students, February 2, 2006*, displaced students are those students who, as a result of their displacement by the storm, are enrolled in different schools on a date on which an enrollment count is taken. The Baldwin LEA’s quarterly displaced student counts included one student whose enrollment date was after ALSDE’s specified enrollment count date of September 21, 2005.

We randomly selected 212 of the 1,124 Baldwin students shown as displaced per the STI system and the list of non-public school students ALSDE provided for the counts taken on September

<sup>2</sup> We did not audit the count taken as of March 22, 2006.

<sup>3</sup> The numbers in the table include both public and non-public school students.

21, 2005, November 21, 2005, and January 23, 2006. We reviewed supporting documentation, including student files, to determine whether the displaced student counts included only eligible students and that the Baldwin LEA had documentation to support classifying students as students with disabilities. Of the 212 students, 1 did not meet the definition of a displaced student because the student was not enrolled in a different school on a date on which an enrollment count was taken (See Table 2).

**Table 2: Baldwin LEA Testing of Displaced Students<sup>4</sup>**

Count	Students Without Disabilities			Students With Disabilities		
	Population	Errors/ Sample Size	Error Rate	Population	Errors/ Sample Size	Error Rate
9/21/2005	489	1/50	2%	54	0/27	0%
11/21/2005	284	0/50	0%	39	0/20	0%
1/23/2006	228	0/50	0%	30	0/15	0%
<b>TOTALS</b>	<b>1,001</b>	<b>1/150</b>	<b>0.7%</b>	<b>123</b>	<b>0/62</b>	<b>0%</b>

**Displaced Students Classified as Students with Disabilities without Sufficient Support**

The Mobile and Baldwin LEAs’ quarterly displaced student counts included students classified as students with disabilities. However, the LEAs could not provide documentation such as Individualized Education Programs (IEP) showing that the displaced students were appropriately classified as students with disabilities.

According to the HERA, Subtitle A, Section 107(c)(2)(A)(i), the LEA shall indicate the number of displaced students, including the number of displaced students who are students with disabilities. The Department informed SEAs and LEAs that such classifications must be supported by records. According to *Volume I Revised, Frequently Asked Questions, Emergency Impact Aid for Displaced Students, February 2, 2006*, LEAs should identify students with disabilities by determining the students’ eligibility for services under the Individuals with Disabilities Act. In addition, LEAs must keep (1) auditable records documenting the enrollments of displaced students whom they claimed as a basis for receiving payments and (2) evidence that the students claimed met the definition of a displaced student. The full requirements regarding recordkeeping are in the Department’s regulations at 34 C.F.R. § 80.42.

We randomly selected 150 of the 1,146 Mobile displaced students shown as students with disabilities per the STI system and the list of non-public school students ALSDE provided for the counts taken on September 21, 2005, November 21, 2005, and January 23, 2006. Of the 150 students, 23, or 15 percent, did not have IEPs to support such a classification (See Table 3).

<sup>4</sup> The numbers in the table include both public and non-public school students.

**Table 3: Mobile LEA Students With Disabilities**

Count	Population	Sample Size	Errors	Error Rate
9/21/2005	362	50	6	12%
11/21/2005	386	50	6	12%
1/23/2006	398	50	11	22%
<b>TOTALS</b>	<b>1,146</b>	<b>150</b>	<b>23</b>	<b>15%</b>

We also randomly selected 62 of the 123 Baldwin displaced students shown as students with disabilities per the STI system and the list of non-public school students ALSDE provided for the counts taken on September 21, 2005, November 21, 2005, and January 23, 2006. Of the 62 students, 6, or 10 percent, did not have IEPs to support such a classification (See Table 4).

**Table 4: Baldwin LEA Students With Disabilities**

Count	Population	Sample Size	Errors	Error Rate
9/21/2005	54	27	3	11%
11/21/2005	39	20	1	5%
1/23/2006	30	15	2	13%
<b>TOTALS</b>	<b>123</b>	<b>62</b>	<b>6</b>	<b>10%</b>

**Students Counted More Than Once in the Same Quarter**

ALSDE included 20 public school and 4 non-public school students more than once in the same quarterly count data. We analyzed the list of names, as recorded in the STI system, supporting each of ALSDE’s four quarterly displaced public school student counts. In addition, we analyzed the list of names supporting ALSDE’s first three quarterly displaced non-public school displaced student counts for the Mobile and Baldwin LEAs.<sup>5</sup> The first quarterly count included 18 students twice. The second, third, and fourth quarterly counts each included 2 students twice. Of the 24 students, 18 were classified as students without disabilities and 6 were classified as students with disabilities.

According to Section 107(c)(2)(A)(i) of the Act, LEAs are to indicate the number of displaced students enrolled in the elementary schools and secondary schools served by such agency for the quarter. It is inherent in the HERA that students are to be included only once.

<sup>5</sup> The Mobile and Baldwin LEAs’ counts of non-public school displaced students accounted for 48 percent of the total number of non-public school displaced students ALSDE reported to the Department.

### **Total Number of Displaced Students Cannot Be Supported**

The number of displaced public school students ALSDE reported to the Department was about 3 percent greater than the number of displaced public school students ALSDE's records can support.<sup>6</sup> According to *Volume I Revised, Frequently Asked Questions, Emergency Impact Aid for Displaced Students, February 2, 2006*, LEAs must keep (1) auditable records documenting the enrollments of displaced students whom they claimed as a basis for receiving payments and (2) evidence that the students claimed met the definition of a displaced student.

We compared the total number of quarterly public school displaced students (21,623)<sup>7</sup> ALSDE reported to the Department to the number of names identified in the STI system as displaced public school students. For the 4 quarterly displaced public school counts of students without disabilities, ALSDE reported a number to the Department that was 1,237 greater than the number of names identified in the STI system. For the 4 quarterly displaced public school counts of students with disabilities, ALSDE reported a number to the Department that was 543 less than the number of names identified in the STI system.

ALSDE could not provide us with a list of names that exactly supported the final quarterly counts reported to the Department because the STI system is a real-time database that is continuously updated as a student's status changes. Neither ALSDE nor the two LEAs we visited maintained a snapshot of the STI data as of the ALSDE's counts taken on September 21, 2005; November 21, 2005; January 23, 2006; and March 22, 2006. ALSDE officials told us that the LEAs were responsible for maintaining the list of names to support the counts. However, neither of the LEAs we visited provided us with lists of names that agreed with the counts ALSDE submitted to the Department.

### **ALSDE Received About \$4.5 Million in Excess EIA Funding**

ALSDE received a projected \$3.7 million more than it should have received for the Mobile LEA students who either (1) did not meet the definition of a displaced student or (2) were classified as students with disabilities without sufficient support for such a classification. We calculated the \$3.7 million by projecting the results of our samples of the Mobile LEA's quarterly displaced student counts across the Mobile LEA's universe of student names from the STI system for the first three (of four) quarterly displaced student counts.

Using statistical sampling techniques, we examined ALSDE's displaced student count data. ALSDE provided us with data from its STI system, which we used as the universe of student names supporting the displaced student counts submitted to the Department. In addition,

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<sup>6</sup> The analysis did not include non-public school students because the non-public school displaced student counts were supported by lists of names submitted outside ALSDE's STI system.

<sup>7</sup> This total is based on ALSDE's four quarterly displaced student counts (6,466; 5,634; 4,883; 4,640) for all Alabama LEAs except Birmingham. The comparison did not include the Birmingham LEA because Birmingham did not use ALSDE's STI system. We compared the Birmingham LEA's public school displaced student count (783 public students) with ALSDE's final displaced public school student total reported to the Department (737 public school students). ALSDE reported 46 fewer public school students than the Birmingham LEA could support.

ALSDE provided us with paper lists of names of displaced students attending non-public schools. The Mobile LEA's combined universe of public and non-public school student names was 7,480 for the first three quarters. From the universe of student names for Mobile, we randomly selected 50 students classified as not having disabilities and 50 students identified as students with disabilities for each of the first three quarterly counts. In total, we randomly selected 300 student names, 100 for each of the quarterly counts. The samples included both public and non-public school students.

The EIA funding totaled \$506,250 for these 300 students. Forty-six of the 150 students without disabilities did not meet the definition of a displaced student. ALSDE received \$69,000 in excess EIA funds for these 46 students. In addition, 50 of the 150 displaced students classified as students with disabilities did not meet the definition of a displaced student. ALSDE received \$93,750 in excess EIA funds for these 50 students. Further, 23 of the 150 displaced students classified as students with disabilities lacked documentation to support such a classification. ALSDE received \$8,625 in excess EIA funds for these 23 students. Based on the results of our samples (see Tables 1 and 3), we are 95 percent confident that ALSDE received \$3,711,855 plus or minus \$722,987 more than it should have received for the first three quarterly counts of the Mobile LEA's displaced students.

ALSDE also received \$3,750 more than it should have received for the Baldwin LEA: \$1,500 for 1 student who did not meet the definition of a displaced student and \$2,250 for 6 students who were classified as students with disabilities without sufficient support for such a classification.<sup>8</sup> In addition, ALSDE received \$38,250 for 24 students included in the quarterly counts more than once in the same quarter. Finally, ALSDE received \$837,375<sup>9</sup> for reporting more displaced public school students that its records could support.

### **Inadequate System of Internal Control over Student Counts**

ALSDE did not have an adequate system of internal control to ensure that the EIA displaced student counts reported to the Department were accurate. ALSDE conducted some monitoring. However, ALSDE conducted its monitoring activities after the final displaced student counts were reported to the Department on April 30, 2006. In June 2006, ALSDE conducted monitoring visits to six LEAs to verify the accuracy of the displaced student counts. ALSDE found that four of the six LEAs had inaccurate displaced student counts. As a result of the monitoring visits, two of the four LEAs filed revised quarterly counts to reflect student counts closer to the results of ALSDE's review determination.

ALSDE relied on the LEAs to verify that the displaced student counts were complete and accurate. ALSDE provided to each LEA the displaced public student count, as identified in the STI system, for each quarter. Each LEA was to verify the displaced student count to its enrollment records. ALSDE did not provide the LEAs with the students' names. The LEAs had

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<sup>8</sup> We did not project the Baldwin LEA results.

<sup>9</sup> ALSDE reported to the Department 1,237 displaced public school students who were not identified in ALSDE's system as displaced public school students. We multiplied 1,237 by \$1,500 (\$1,855,500). We then reduced that amount by \$1,018,125: 543 displaced public school students who were students identified with disabilities but not reported to the Department multiplied by \$1,875.

10 days to verify the accuracy of the total number of displaced students. After ALSDE received the displaced student counts from the LEAs, it did not check for duplicate students or validate the displaced student enrollment data.

For districts with a large number of displaced students, this procedure was inadequate. Mobile's Assistant Superintendent, Division of Student Services, stated it was difficult to verify the accuracy of the total number without a list of the corresponding names. In addition, it was difficult to verify the accuracy because the LEA did not know the date ALSDE queried the STI system to arrive at the baseline count.

### **Recommendations**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education instruct ALSDE to

- 1.1 Return to the Department approximately \$3.7 million in EIA funds it received for the Mobile LEA for students who were (a) not eligible to be classified as displaced students and (b) classified as displaced students with disabilities without documentation to support such a classification;
- 1.2 Return to the Department \$3,750 in EIA funds it received for the Baldwin LEA for the one student who did not meet the definition of a displaced student and the six students classified as displaced students with disabilities without documentation to support such a classification;
- 1.3 Return to the Department \$38,250 in EIA funds received for students who were included in the quarterly displaced student counts more than once in the same quarter;
- 1.4 Provide support for or return to the Department \$837,375 for reporting more displaced public school students than its records could support; and
- 1.5 Confirm the accuracy of its displaced student counts for all Alabama LEAs except Mobile and Baldwin and return to the Department any funds received for (a) students not eligible to be classified as displaced and (b) displaced students classified as students with disabilities without documentation supporting such a classification.

### **ALSDE's Comments**

#### **Data Used for Assessment**

ALSDE stated the draft audit report is flawed because we used data that was unrelated to the numbers ALSDE used in requesting EIA funding. According to ALSDE, it did not use the STI student reporting system as the basis for identifying displaced students. ALSDE planned to use the STI system but encountered problems, so it used an alternative reporting system to compile displaced student counts.

On June 26, 2007, ALSDE officials explained to us the alternative reporting system consisted of the LEAs' spreadsheets and in-house student tracking system. They explained the LEAs did not

use the STI system to compile the student counts. ALSDE used the STI system to derive a baseline count that it could provide to the LEAs. The LEAs revised the baseline count extracted from the STI system through the use of their spreadsheets and in-house tracking systems. ALSDE said the ultimate source of the student counts was the LEAs' spreadsheets and in-house tracking systems and not the STI system.

### **LEAs Compiled Accurate Displaced Student Counts**

ALSDE stated the LEAs compiled accurate displaced student counts for reporting to ALSDE. ALSDE requested EIA funding for displaced students using counts verified by the LEAs. The LEAs' applications included a signature of the superintendent under a certification that the data is correct.

### **Baldwin County**

ALSDE did not agree with the ineligible non-public student we identified in Table 2 and the 6 errors we identified in Table 4. For Table 2, ALSDE stated the non-public school served 41 eligible displaced students on the first quarter count date, however the non-public school only claimed 20 students. As a result, ALSDE said this ineligible student should be counted as 1 of the 21 students that were not claimed as displaced, and Baldwin did not receive EIA funding for this student.

For Table 4, ALSDE said the population numbers exceeded the actual count of Baldwin's displaced students with disabilities. The students identified without documentation to support a classification as students with disabilities were not included in Baldwin's counts as students with disabilities.

### **Mobile County**

ALSDE did not agree with the 96 ineligible students we identified in Table 1 and the 23 errors we identified in Table 3. In Table 1, ALSDE said that the errors we identified and the subsequent projection are flawed because we used inaccurate STI data instead of the actual displaced student counts for Mobile. First, ALSDE states that we used an incorrect population that resulted in a sample that included students never claimed for EIA funding. ALSDE added that the use of misidentified errors to create an incorrect error rate for application to an inaccurate population leads to a projection that is statistically implausible. Second, ALSDE said we disallowed displaced students who re-enrolled in a school after attendance at other schools. Third, ALSDE stated we misidentified an eligible displaced student from Louisiana as a student enrolled in their original school.

For Table 3, ALSDE said that, besides the fact we used an inaccurate population, we included as errors many displaced students that Mobile did not report as students with disabilities. ALSDE said our working papers document that Mobile did not include many of these displaced students as students with disabilities. In addition, the OIG identified students with disabilities that did not have an IEP when Mobile does have an IEP for the students.

### **OIG Response**

We have not changed our finding or recommendations based on ALSDE's comments on the draft audit report or our subsequent discussion with ALSDE officials. However, we made changes to the report to clarify our use of ALSDE's STI data.

### **Data Used for Assessment**

We do not consider the STI data unrelated to the numbers ALSDE used in requesting reimbursement for displaced students. ALSDE officials explained that they used the STI system as the baseline for deriving the quarterly displaced student counts. They informed us that they ran a query of the STI system using a unique identifier that the LEAs entered into the STI system to count displaced students. Our understanding of the process used to compile the displaced student counts is the same as ALSDE described during our audit and on June 26, 2007. When we visited the Mobile and Baldwin LEAs, we confirmed this process with LEA officials. Mobile and Baldwin LEA officials explained that ALSDE provided numbers from the STI system and asked the LEAs to verify the accuracy of the total number of displaced students. ALSDE's comments on the draft report are misleading, indicating that the student counts were compiled without any use of the STI system.

Neither ALSDE nor the two LEAs we visited provided us with comprehensive lists of names in support of the quarterly displaced student counts. Therefore, we used the names extracted from the STI system. Based on the process used by ALSDE to compile the displaced student count and our discussions with officials from ALSDE and the two LEAs, we considered the lists of names extracted from the STI system sufficient for use as the universes for the three quarterly displaced student counts we tested. In addition, during our testing of students from the universes derived from the STI system, we encountered no indications that the STI data did not provide a good universe. Both LEAs maintained documentation that indicated all the students in our samples were identified as displaced students.

### **LEAs Compiled Accurate Displaced Student Counts**

The LEAs did not compile accurate displaced student counts for reporting to ALSDE. Our testing showed that the Mobile LEA included students in its count that did not meet the definition of displaced student. Both the Mobile LEA and ALSDE stated the Mobile LEA included students who did not meet the definition. In addition, both Mobile and Baldwin included students classified as students with disabilities without sufficient support for such a classification. Further, the ALSDE's own review determined that four of the six LEAs visited had inaccurate displaced student counts.

Because the counts were to be verified by the LEA, and the LEA superintendent certified that the data is correct, does not make the counts accurate. The process only works if applied correctly. Our audit and ALSDE's own review demonstrate that the process was not applied correctly.

### **Baldwin County**

ALSDE did not provide documentation to support its assertion that Baldwin and the non-public school did not receive EIA funding for the student we identified in Table 2. In addition, ALSDE did not provide documentation to support that Baldwin did not receive EIA funding at the students with disabilities reimbursement rate for the students we identified in Table 4.

**Mobile County**

ALSDE did not address the main problem described in the Finding and in Table 1. We identified 96 displaced students who did not meet the definition of an eligible displaced student. The displaced students attended the same school and were not enrolled in a different school because of the hurricane. Documentation provided by Mobile during our audit showed all 96 students were attending the same school. ALSDE did not provide support to refute that these students were not included in Mobile’s quarterly counts, did not attend the same school, or that the student from Louisiana was not enrolled in the same school.

Also, ALSDE’s comments contain incorrect numbers. Under the heading *Table 1 Errors*, for the column labeled *Actual reimbursement*, the numbers ALSDE cites do not include non-public school displaced student counts. The totals we used in Table 1 contain non-public school students. If you add the non-public school displaced student counts to the numbers ALSDE cites, ALSDE’s final count is 132 students more than the STI total we used in our testing:

Quarter	OIG Total	ALSDE Total	Difference
1	2,270	2,218	52
2	2,126	2,137	-11
3	1,938	2,111	-173
<b>TOTALS</b>	<b>6,334</b>	<b>6,466</b>	<b>-132</b>

In response to the 5 students who re-enrolled in their original school, these students were not eligible displaced students for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. The 5 students initially were enrolled in Turner elementary in August 15, 2005, and withdrew on October 17, 2005, to enroll in Saraland. The student withdrew from Saraland on October 17, 2005, and re-enrolled in Turner on November 9, 2005. The 2<sup>nd</sup> and 3<sup>rd</sup> quarterly counts dates were November 21, 2005, and January 23, 2006. On these dates, the 5 students were enrolled in their original school.

For Table 3, our documentation does not show that Mobile did not classify these students as students with disabilities. Our documentation shows that ALSDE’s STI data classified the student as a student with disabilities, but Mobile’s STI data and supporting documentation did not classify the students as students with disabilities. In addition, ALSDE did not provide us with documentation to support the assertion that Mobile has IEPs for the students we identified as not having IEPs.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of our audit were to determine if the (1) ALSDE and two selected Alabama LEAs established adequate systems of internal control to provide accurate displaced student count data; (2) ALSDE established an adequate system of internal control to make accurate allocations of EIA funds; and (3) two selected LEAs used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations. Initially, we had an objective to determine whether ALSDE and Alabama LEAs had systems of internal control over the Homeless Youth program. However, ALSDE has not drawn down any Homeless Youth funds so we did not conduct any work related to the Homeless Youth program. Our audit covered the period September 1, 2005, through September 30, 2006.

The two LEAs we selected were Mobile and Baldwin. We selected these two LEAs because their displaced student counts represented about 48 percent of the total displaced students for the State of Alabama.

To accomplish our objectives, we

- Obtained from the Department the amount of EIA funding allocated to ALSDE;
- Obtained and reviewed ALSDE's organization chart;
- Obtained and reviewed portions of the HERA, regulations, and guidance relevant to the audit objectives;
- Reviewed ALSDE's, Mobile's, and Baldwin's EIA written policies and procedures;
- Interviewed various ALSDE, Mobile, and Baldwin officials to obtain an understanding of their systems of internal control over the EIA program;
- Obtained and reviewed ALSDE's EIA application and ALSDE's selected quarterly count data for the counts taken on September 21, 2005, November 21, 2005, and January 23, 2006;
- Compared the displaced public student count totals ALSDE submitted to the Department with the total number of public school student names extracted from ALSDE's STI system;
- Reviewed ALSDE's list of displaced public school students to identify any students counted more than once in the same quarter;
- Reviewed supporting documentation, including student files, for a randomly selected sample of 300 Mobile LEA displaced students, from a universe of 7,480 displaced students included in ALSDE's STI system and non-public school student lists, to determine whether the Mobile LEA had documentation to support classifying students as displaced students and that the Mobile LEA had documentation to support classifying students as students with disabilities;
- Reviewed supporting documentation, including student files, for a randomly selected sample of 212 Baldwin LEA displaced students, from a universe of 1,124 displaced students included in ALSDE's STI system and non-public school student lists, to determine whether the Baldwin LEA had documentation to support classifying students as displaced students and that the Baldwin LEA had documentation to support classifying students as students with disabilities; and

- Obtained and reviewed a list of EIA expenditures and EIA drawdown information for the Mobile and Baldwin LEAs 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 did not review documentation such as purchase orders, invoices, and canceled checks for individual transactions.)

We relied, in part, on displaced public school students' data maintained in ALSDE's STI system and provided to us by ALSDE. To ensure the reliability of the data, we compared the total number of displaced public school student names provided by ALSDE to the total number of displaced public school students ALSDE reported to the Department. In addition, for each student shown as displaced in the STI system, we verified information was entered in all the data fields. We determined the number of student names from the STI system did not fully agree with the number of displaced students ALSDE reported to the Department. However, for the student names included, the data was complete and, therefore, sufficiently reliable for the purposes of our audit.

We conducted our work at ALSDE's office in Montgomery, Alabama; the Mobile LEA in Mobile, Alabama; the Baldwin LEA in Bay Minette, Alabama; and our offices in Chicago, Illinois, and Kansas City, Missouri, from April 2006 through December 2006. We discussed the results of our audit with ALSDE officials on February 7, 2007.

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

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## **ADMINISTRATIVE MATTERS**

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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. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

This report incorporates the comments you provided in response to the draft report. 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 Avenue, SW  
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,



Gary D. Whitman  
Acting Regional Inspector General  
for Audit

Attachment

**Attachment: Alabama State Department of Education's Comments to Draft Report**

April 4, 2007

**Control Number  
ED-OIG/A05G0020**

Mr. Richard J. Dowd  
Regional Inspector General for Audit  
United States Department of Education  
Office of Inspector General  
500 West Madison Street, Suite 1414  
Chicago, IL 60661

Dear Mr. Dowd:

We have reviewed the **Draft Audit Report**, dated March 9, 2007, that was issued by the Office of Inspector General (OIG) as a result of an audit of the Alabama State Department of Education's compliance with selected Hurricane Education Recovery Act, Emergency Impact Aid program requirements.

We do not concur with the finding that Alabama State Department of Education (ASDE) did not report accurate quarterly displaced student count data to the U. S. Department of Education (USDE) due to inadequate systems of internal control. The OIG audit finding is based on erroneous conclusions derived from the assessment of student count data that was not used by the ASDE for obtaining funding under the Emergency Impact Aid (EIA) program. We do not concur with the OIG recommendations that are also based on the incorrect assessment of the data upon which the ASDE requested EIA funding.

The **Draft Audit Report** is flawed by OIG's use of data that is unrelated to the numbers the ASDE used in requesting reimbursement for displaced students. The OIG's erroneous use of irrelevant data provides a defective document in regard to both the conclusions and the calculations contained in the **Draft Audit Report**.

Initially, the ASDE planned to use the automated STI student reporting system as the basis for identifying students displaced by Hurricanes Katrina and Rita. (The ASDE collects student information from schools via the STI software that is used by school districts throughout the U.S.). Tracking these students was to be done by creating a unique number that would identify the student as displaced, the state of origin, and the school district receiving the student. The ASDE provided to each LEA the displaced student count, as identified in the STI student reporting system, for each quarter in order for the LEA to verify the displaced student count to the LEA enrollment records.

The LEA verification of the displaced students submitted via the STI student reporting system revealed that an alternative reporting system was needed to provide accurate data for reimbursement requests. LEA's used spreadsheets and in-house student tracking systems to compile accurate displaced student counts for reporting to the ASDE. ASDE requested EIA funding for displaced students using student counts verified by the LEA's, not the student counts

from the STI data collected by the ASDE because of the aforementioned problems encountered with the use of STI data.

The number of displaced students was submitted by the LEA on an application designed by the USDE which included the signature of the superintendent under a certification that the data is correct. Student level information to support the displaced counts submitted by the LEA on the application was not required to be sent to the ASDE. This level of data was to be maintained at the LEA. It is the contention of the ASDE that submission of this student level data through a non-secure means would have conflicted with HIPPA and/or FERPA regulations. Further, Section 107 of the Hurricane Education Recovery Act does not require the ASDE to maintain a listing of displaced students to support the quarterly enrollment counts.

The STI student reporting system was not used for requesting reimbursement from the USDE for displaced students. However, the **Draft Audit Report** uses the displaced student count generated by the STI student reporting system in the OIG's calculations.

### **Baldwin County**

**Table 2: Baldwin LEA Testing of Displaced Students** identifies one error in the count of displaced students for the first quarter. That one student was identified by OIG as a non-public school student at Christ the King Catholic School. Christ the King Catholic School provided the required parent application forms for the displaced students enrolled at the school. Although Christ the King Catholic School served 41 eligible displaced students on the first quarter enrollment date, reimbursement was claimed (and subsequently paid) for only 20 students. The one ineligible student identified by OIG should be counted as one of the 21 students for which no reimbursement was received. Baldwin County Schools did not receive reimbursement for the one ineligible student identified.

**Table 4: Baldwin LEA Students With Disabilities** identifies 6 errors (3 students) for the first, second, and third quarters. (The Population numbers in the table exceed the actual count used for reimbursement because OIG used the names of the students identified in the STI student reporting system instead of the actual count submitted for reimbursement.) The three students, identified as ineligible for special education displaced student funding by OIG, were not included in the special education count for reimbursement. Baldwin County Schools did not receive reimbursement at the special education amount for the 3 students (6 errors) as reported in the **Draft Audit Report**.

### **Mobile County**

**Table 1: Mobile LEA Testing of Displaced Students** identifies 96 errors in the count of displaced students for the first, second, and third quarters. The errors identified by OIG, as well as the subsequent projection of OIG's identified errors to the population, are flawed in several ways. First, OIG erroneously used the inaccurate data collected by the STI student reporting system instead of the displaced student count actually used for EIA reimbursement. The incorrect displaced student population used by OIG resulted in the selection of a sample for testing that included students that were never claimed for reimbursement. **The use of**

**misidentified errors to create an incorrect error rate for application to an inaccurate population leads to a projection that is statistically implausible.** Second, OIG disallowed displaced students who reenrolled in a school after attendance at other schools. Third, OIG misidentified an eligible displaced student from Louisiana as a student enrolled in their original school.

**Table 1 Errors**

<i>Students Without Disabilities:</i>	<u>Population per Table 1</u>	<u>Actual reimbursement</u>
Quarter 1	2270	2064
Quarter 2	2126	1982
Quarter 3	1938	1980
<i>Students With Disabilities:</i>		
Quarter 1	362	374
Quarter 2	386	379
Quarter 3	398	377

*Students Reenrolled in Turner Elementary after attending Saraland Elementary:*

Quarter 2	Student 830-49-0781 left Saraland on 10/17/05; enrolled in Turner 11/9/05
	Student 830-49-0783 left Saraland on 10/17/05; enrolled in Turner 11/9/05
Quarter 3	Student 830-49-0779 left Saraland on 11/08/05; enrolled in Turner 11/9/05
	Student 830-49-0781 left Saraland on 10/17/05; enrolled in Turner 11/9/05
	Student 830-49-0782 left Saraland on 11/08/05; enrolled in Turner 11/9/05

*Eligible Student from Louisiana:*

Quarter 1	Student 840-49-0261
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**Table 3: Mobile LEA Students With Disabilities** identifies 23 errors for the first, second, and third quarters. In addition to the inaccurate population used in selecting the sample for testing, OIG included as errors many displaced students that Mobile County did not report for special education funding. The OIG working papers document that Mobile County did not include many of these students in the displaced student count for EIA reimbursement at the special education rate. Also, OIG misidentified special education students as not having an IEP when Mobile County does have an IEP for the eligible displaced students.

**Table 3 Errors**

*Students Not Claimed for Special Education Reimbursement:*

<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>
830-49-0770	840-49-0531	830-49-0644
830-49-1713	830-49-0801	830-49-1134
830-49-0333	830-49-1234	830-49-0879
830-49-1771	830-49-0853	830-49-0989
830-49-0410	830-49-1134	830-49-1649
830-49-0259	840-49-0444	830-49-1664
830-49-0977	830-49-0342	830-49-0856

850-49-0060	830-49-1230	830-49-0977
830-49-1582	830-49-0540	830-49-1906
830-49-0856	830-49-0738	830-49-1747
850-49-0026		830-49-1290
830-49-1139		830-49-0231
830-49-0246		830-49-1126
		850-49-0070
		830-49-0655
		830-49-1549

*Students With IEPs on File:*

<u>Quarter 2</u>	<u>Quarter 3</u>
830-49-1489	830-49-1311

The OIG's determination that the ASDE included 24 students more than once in the same quarterly count data is irrelevant to the reimbursement of EIA funds. ASDE requested EIA funding for displaced students using student counts verified by the LEAs, not the student counts from the STI data collected by the ASDE.

The OIG again used the student counts from the STI data collected by the ASDE to incorrectly determine that the ASDE reported more students than the ASDE could support. As previously stated, the ASDE used the student counts verified and reported by the LEAs for EIA reimbursement requests.

The **Draft Audit Report** determined that the ASDE did not have an adequate system of internal control to ensure that the EIA displaced student counts reported for reimbursement were accurate. The OIG concluded that on-site monitoring visits were essential to an adequate system of internal control. This conclusion is not supported by Section 107 of the Hurricane Education Recovery Act or the OMB A-133 Compliance Supplement. State Departments of Education were instructed not to monitor any LEAs that the OIG would be monitoring. The ASDE was specifically instructed not to monitor the Mobile school system. The six LEAs monitored by the ASDE along with OIG review of Mobile provided coverage of over half of the displaced students in Alabama. In light of the tight time lines for EIA reporting, the ASDE's scheduling of monitoring reviews could not have occurred prior to the quarterly reporting to the USDE. With no guidance from the USDE or OIG, the internal control system used by the ASDE for verifying the accuracy of displaced student counts cannot be considered inadequate.

The Hurricane Education Recovery Act, Emergency Impact Aid program provided a one-time only emergency grant for the 2005-2006 school year tailored to the needs and particular circumstances of students displaced by Hurricane Katrina. The Alabama State Department of Education chose to pass-through all of the much-needed funds to the school districts serving the displaced students, although EIA program regulations allowed the use of a portion of these funds for administrative costs. Timing issues and the temporary purpose of these funds prevented the implementation of procedures and employment of additional personnel to conduct extensive monitoring efforts.

We appreciate your assistance in resolving this matter. If you have any questions, please contact Craig Pouncey, Assistant State Superintendent, at telephone number (334) 242-9755.

Sincerely,

Joseph B. Morton  
State Superintendent of Education

JBM:DWH