



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JUN 25 2002

Mr. Joseph Fisher
Assistant Commissioner
Tennessee Department of Education
710 James Robertson Parkway
Nashville, Tennessee 37243-0380

Dear Mr. Fisher:

This **Final Audit Report** (A06-C0005) presents the results of our audit of the Individuals with Disabilities Education Act (IDEA), Part B, § 611, at the Tennessee Department of Education (Tennessee). The objective of our audit was to determine if Tennessee complied with the IDEA, Part B, § 611 flow-through funding requirements. Our audit focused on federal fiscal years (FY) 2000 and 2001.

A draft of this report was provided to the Tennessee Department of Education. In its response, Tennessee disagreed, in part, with our recommendation to recompute the FY 2001 flow-through funds using the correct base, population, and poverty figures and to reallocate the correct funding to the LEAs. Tennessee stated that FY 2001 was correct, but that FY 2000 had been incorrectly allocated and should be reallocated. The FY 2000 allocation improperly used the 1999 children with disabilities child count rather than the 1998 count. In FY 2001, Tennessee corrected its error and properly used the 1998 children with disabilities child count.

Based on the documents provided, we concur with Tennessee and have changed our finding and recommendation to reflect that FY 2000 should be reallocated rather than FY 2001. Tennessee's comments are summarized in the section that follows the Recommendation section. A copy of the complete response is enclosed with this report.

BACKGROUND

The IDEA Grants to States program provides formula grants to assist the 50 States, the District of Columbia, Puerto Rico, and the outlying areas of the Pacific Basin and Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. IDEA Part B requires the U.S. Department of Education (the Department) to allocate funds to the States who are then required to allocate a portion of the funding to each Local Education Agency (LEA). Prior to 1997, the formula for calculating the funds that each State and LEA would receive was based on the total number of children with disabilities. The

IDEA Amendments of 1997 changed the formula to require States to allocate funds to the LEAs based on total student population and the number of students living in poverty. The new formula was slated to take effect when the Grants to States program exceeded \$4.925 billion. This trigger figure was reached in FY 2000 making it the first year of the new formula and making FY 1999 the base.

The new funding formula has several components, some of which are funds the States may use at the state level. Although the new formula has several components, our audit focused on the funds designated for allocation to the LEAs. These funds are known as the “minimum flow-through funds.” The minimum flow-through funds are composed of three components – a fixed base amount, an amount based on total student population, and an amount based on the number of students living at poverty level. The base figure for each LEA is the amount the LEA would have received for the base year (FY 1999), if the State had distributed 75 percent of its grant for that year. According to § 611(g)(2)(B)(ii), each State is required to distribute 85 percent of the population and poverty funds on a pro rata basis according to the LEAs’ public and private elementary and secondary school enrollment. The remaining 15 percent is distributed to each LEA on a pro rata basis according to the number of children living in poverty.

Each year in July the Department provides a Grant Notification Letter to each State that identifies the funding level for the flow-through components. Tennessee allocated IDEA, Part B, § 611 funds to 146 LEAs in FY 2000. Because of a school closure, the state allocated funds to 145 LEAs in FY 2001.

AUDIT RESULTS

We determined that Tennessee did not comply with the new IDEA, Part B, § 611 funding formula for FY 2000. Specifically, Tennessee incorrectly calculated the base allocation for each LEA using the 1999 children with disabilities child count instead of using the 1998 children with disabilities child count. The 1998 children with disabilities child count was the number used by the Department to establish the base allocation for Tennessee. The base allocation was a fixed number and was not supposed to change from year to year once the new funding formula took effect.

According to Enclosure A of the FY 2000 Grant Notification Letter, “[L]ocal awards, like state awards, are no longer based on [children with disabilities] child count.” In addition, federal regulations [34 C.F.R. § 300.712(b)(2)] allow for adjustments to the base figure under very specific conditions--a new LEA is created, LEAs are combined, or the administrative responsibility or geographic boundaries of an LEA is changed. Tennessee’s miscalculation of the base to its LEAs in FY 2000 did not meet any of these conditions. As a result of incorrectly calculating the base figure, 84 LEAs were over funded by amounts ranging from \$484 to \$92,043 while 62 LEAs were under funded by amounts ranging from \$82 to \$326,755. We determined that Tennessee was in compliance for FY 2001.

Tables A-1 and A-2 represent the amounts Tennessee was required to allocate for FYs 2000 and 2001, according to the Department's Grant Notification Letters and the actual amounts that Tennessee allocated. Table B illustrates the effect that incorrectly calculating the LEAs' base allocation had on six of the LEAs.

TABLE A-1 FY 2000

Funding Component	Grant Notification Letter Required Funding Amounts	Tennessee's Actual Funding Amounts
Total Minimum Flow Through to LEAs	\$82,026,989	*\$82,034,232
LEA Base Allocation	\$66,522,917	**\$66,522,957
LEA Population/Poverty	\$15,504,072	\$15,511,275
85% Population Allocation	***\$13,178,461	\$13,184,579
15% Poverty Allocation	***\$ 2,325,611	\$ 2,326,696

* Tennessee over funded the Total Minimum Flow Through funds by \$7,243.

** Tennessee over funded the FY 2000 base allocation by \$40.

*** OIG calculations from the Population/Poverty figure in the Grant Notification Letter.

TABLE A-2 FY 2001

Funding Component	Grant Notification Letter Required Funding Amounts	Tennessee's Actual Funding Amounts
Total Minimum Flow Through to LEAs	\$106,503,848	*\$106,503,848
LEA Base Allocation	\$ 66,522,917	\$ 66,522,917
LEA Population/Poverty	\$ 39,980,931	*\$ 39,980,933
85% Population Allocation	**\$ 33,983,791	\$ 33,983,793
15% Poverty Allocation	**\$ 5,997,140	\$ 5,997,140

* Rounding difference of \$2.

** OIG calculations from the Population/Poverty figure in the Grant Notification Letter.

TABLE B

TENNESSEE OVER/UNDER FUNDING EXAMPLES			
	FY 2000		
	Incorrect Base	Correct Base	*Difference
Memphis	\$6,381,862	\$6,709,701	\$(327,839)
Knox	\$3,646,553	\$3,906,127	\$(259,574)
Shelby	\$3,178,333	\$3,298,841	\$(120,508)
Nashville	\$5,103,180	\$5,011,791	\$91,389
Tipton	\$ 975,284	\$ 912,225	\$63,059
Rutherford	\$1,581,555	\$1,524,178	\$57,377

* The difference represents errors in calculating the base allocation for these districts and not the total amount under or over allocated

RECOMMENDATION

We recommend that the Assistant Secretary for the Office of Special Education and Rehabilitative Services require Tennessee officials to recompute the FY 2000 flow-through funds using the correct base, population, and poverty figures and to reallocate the correct funding to the LEAs.

TENNESSEE'S COMMENTS TO THE DRAFT REPORT

Tennessee agreed that allocations for FY 2000 and FY 2001 should be based on the same children with disabilities child count when determining the base allocation. Tennessee stated that the base allocation should be calculated using the December 1998 children with disabilities child count. Tennessee also stated that the allocations for FY 2000 were incorrectly based on the December 1999 children with disabilities child count while allocations for FY 2001 were correctly based on the December 1998 children with disabilities child count. Regarding the recommendation to reallocate for FY 2000, Tennessee stated, "Since this award is no longer available for use, we propose utilizing some of Tennessee's discretionary money from the FY 2001 award to reallocate funds to those LEAs who did not receive their fair share."

OIG'S RESPONSE

Based on documents provided, we agree with Tennessee's position that the FY 2000 allocations should have used the December 1998 children with disabilities child count as the base. Accordingly, we have changed our finding and recommendation.

Tennessee's proposal to utilize State discretionary funds from FY 2001 to reallocate funds to those LEAs who did not receive their fair share in FY 2000 should be addressed by the Department's action official responsible for resolution of this audit.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if Tennessee complied with the new IDEA, Part B, § 611 funding requirements for FY 2000 and 2001. To accomplish our objective, we:

- Obtained Tennessee's formula allocation to all the LEAs, including the allocation breakdown of the base, population, and poverty amounts for FYs 2000 and 2001.
- Reviewed the Tennessee State Auditor report for 2000.
- Interviewed State officials regarding the data used in the allocation formula, the methodology used in the formula, and other applicable policies and procedures.

- Recalculated the allocation for all Tennessee LEAs.
- Performed limited data reliability tests on the data used in the allocation formula and found the data to be reliable for our purposes.

Our audit of Tennessee's formula allocation covered FYs 2000 and 2001. We performed fieldwork from December 10 through December 13, 2001, at the State offices in Nashville, Tennessee. A pre-exit conference was held on December 13, 2001 and a final exit conference was held on March 22, 2002. Our work was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

STATEMENT OF MANAGEMENT CONTROLS

As part of our review, we assessed the management control system of policies, procedures, and practices applicable to Tennessee's compliance with IDEA, Part B, § 611. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed a management control weakness that affected the allocation of FY 2000 flow-through funds to Tennessee's LEAs. That weakness is discussed in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

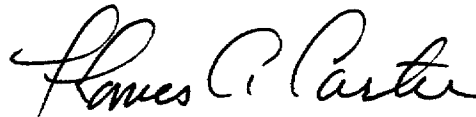
Dr. Robert H. Pasternack, Assistant Secretary
U.S. Department of Education
Office of Special Education & Rehabilitative Services
330 C Street, SW
Room 3006, MES Building
Washington, DC 20202-2500

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

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

If you have any questions or wish to discuss the contents of this report, please contact Sherri L. Demmel, Regional Inspector General for Audit, Dallas, Texas, at 214-880-3031. Please refer to the control number in all correspondence related to this report.

Sincerely,

A handwritten signature in black ink that reads "Thomas A. Carter". The signature is written in a cursive style with a large, prominent initial "T".

Thomas A. Carter
Assistant Inspector General for Audit Services

Enclosure



TENNESSEE DEPARTMENT OF EDUCATION

Division of Special Education
5th Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, Tennessee 37243-0380
(615) 741-2851

May 3, 2002

Sherri L. Demmel
Regional Inspector General for Audit
U.S. Office of Inspector General
1999 Bryan St., Suite 2630
Dallas, Texas 75201-6817

Dear Ms. Demmel:

This letter is in response to the **Draft Audit Report** (A06C0005) recommendation of findings. Tennessee is not questioning that the LEA allocations for FFY 2000 and FFY 2001 should have used the same 3-21 child count figures when determining the base allocation. We believe the child count figures used to determine LEA allocations for FFY 2000 should have been the same child count figures used previously for FFY 1999, which was the December 1, 1998 Census.

To support this position, I have included citations from 34 CFR, past OSEP memos and Grant Award notifications previously sent to states.

300.706 Permanent formula

300.706(b) Use of base year.

- (1) *Definition.* As used in this section, the term base year means the fiscal year preceding the first fiscal year in which this section applies.

The money became available July 1, 2000; (or FFY 2000); the preceding year would have been July 1, 1999 (or FFY 1999). LEAS in Tennessee received FFY 1999 funds based on their December 1, 1998 Census child count figures. (Reference handout "IDEA Allocation 1999-2000 Based on December 1998 Census")

- Reference **OSEP Memo 99-10** "The actual FFY 1999 allocations will be based on children counted by the States as of either December 1, 1998 or the last Friday in October 1998."

FFY 2000 OSEP Letter dated July 7, 2000

- "...a new formula is being implemented for the section 611 program"
- Enclosure A – 611 Base Allocation (Column F of Table I)
- "The amount shown in Column F is the portion of the LEA flow-through amount that must be distributed to LEAs based on the amounts that the LEAs **would have received in FFY 1999 funds** had the SEA flowed through 75% of the State award to LEAs.
- Reference handout "IDEA Allocation 2000-2001 Based on December 1999 Census".
- In this allocation, the 3-21 Count, used to determine the base allocation, was changed. It is now the December 1, 1999 Census Count. The Count used to determine the amounts that the LEAs were to have received in FFY 1999 funds was based on the December 1, 1998 Child Count.

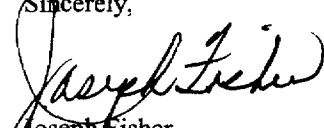
FFY 2001 Grant Award Notification - February 8, 2001 – LEA Base Allocation (Column C)

- "...the LEA flow-through amount that must be distributed to LEAs based on the amounts that the LEAs **would have received in FFY 1999 funds** had the SEA flowed through 75% of the State award to LEAs."
 - In this allocation (FFY 2001), the 3-21 Count was changed **BACK** to the 12/1/98 child count figures based on the above referenced guidance memos and letters. The (12/1/98) Census count was used to determine the base allocation that LEAs would have received in FFY 1999 funds. (Reference handout "IDEA Final Allocation 2001-2002 Calculated Using Federal Criteria")

If the base allocation for FFY 2001 is correct, the base amount used to determine LEAs allocations for FFY 2000 was incorrect. The December 1, 1998 child count figures should have been used instead of the December 1, 1999 figures. Since this award is no longer available for use, we propose utilizing some of Tennessee's discretionary money from the FFY 2001 award to reallocate funds to those LEAs who did not receive their fair share. We will do so as soon as we receive a response from your office that this plan meets with your approval.

I would like to like to take this opportunity to say thank you to the auditors who came to Tennessee. They gave us excellent suggestions to the questions that were asked and took the time to explain why. I feel confident that we benefited from their visit and learned a great deal which will help us in the future.

Sincerely,



Joseph Fisher
Assistant Commissioner

Cc: Nan McKerley

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Auditee

Mr. Joseph Fisher
Assistant Commissioner
Tennessee Department of Education
710 James Robertson Parkway
Nashville, TN 37243-0380

ED Action Official

Dr. Robert H. Pasternack
Assistant Secretary
Office of Special Education and
Rehabilitative Services

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