
Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California

FINAL AUDIT REPORT



**ED-OIG/A09-D0018
March 2004**

Our mission is to promote the efficiency,
effectiveness, and integrity of the
Department's programs and operations



U.S. Department of Education
Office of Inspector General
Sacramento, California

Notice

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.

In accordance with 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 under the Act.



**U.S. Department of Education
Office of Inspector General**



501 I Street, Suite 9-200
Sacramento, California 95814
Phone (916) 930-2388 • Fax (916) 930-2390

March 29, 2004

Jack T. O'Connell
State Superintendent of Public Instruction
California Department of Education
1430 N Street
Sacramento, California 95814

Dear Superintendent O'Connell:

Enclosed is our final audit report, Control Number ED-OIG/A09-D0018, entitled *Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California*. 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 officials, who will consider them before taking final Departmental action on this audit:

Nina Rees
Deputy Under Secretary
Office of Innovation and Improvement
U.S. Department of Education
Room 4W317 - Federal Building No. 6
400 Maryland Ave., SW
Washington, DC 20202

Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
Room 3W315 - Federal Building No. 6
400 Maryland Ave., SW
Washington, DC 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 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,

/s/

Gloria Pilotti
Regional Inspector General for Audit

Enclosure

electronic cc: Roy Romer, Superintendent, Los Angeles Unified School District
Chris Steinhauser, Superintendent, Long Beach Unified School District
Arlene Ackerman, Superintendent, San Francisco Unified School District
General Davie, Jr., Superintendent, San Juan Unified School District
Anne Just, State Title I Director, CDE
Alice Parker, State Special Education Director, CDE
Jennifer Faulkner, Special Education Division, CDE
Eileen Cubanski, Charter Schools Division, CDE
Deborah Herrmann, Charter Schools Division, CDE
Bill Meyer, Fiscal Services Division, CDE
Kevin Chan, Director, Office of Audits and Investigations Division, CDE
Kim Sakata, Audit Response Coordinator, Office of Audits and
Investigations Division, CDE

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
BACKGROUND	3
AUDIT RESULTS	5
FINDING NO. 1 – CDE Should Enhance Information Provided to Charter Schools About the ESEA § 5206 Requirements for New or Expanding Charter Schools	5
Recommendations	8
CDE Comments.....	8
FINDING NO. 2 – CDE Needs to Strengthen Procedures to Ensure that Charter School LEAs Have Approved Plans and Title I Allocations Are Timely and Proportionate.....	9
Recommendations	11
CDE Comments and OIG Response	12
FINDING NO. 3 – CDE Needs to Take Additional Steps to Ensure Charter Schools that Are Public Schools of an LEA Receive Proportionate and Timely Access to Title I Funds	13
Recommendations	16
CDE Comments.....	17
OTHER MATTERS	18
OBJECTIVES, SCOPE, AND METHODOLOGY	20
STATEMENT ON MANAGEMENT CONTROLS.....	22
ATTACHMENT 1 – CDE Comments on the Draft Report.....	23

EXECUTIVE SUMMARY

The California Department of Education (CDE) and the four local educational agencies (LEAs) we reviewed had systems in place to allocate Elementary and Secondary Education Act of 1965 (ESEA), Title I and Individuals with Disabilities Education Act (IDEA), Part B funds to eligible charter schools, including new or expanding charter schools.¹ However, we found that—

- CDE and three of the LEAs we reviewed did not provide sufficient information to existing charter schools on the requirement to provide written notification of their expansion dates within 120 days and the definition of “significant expansion of enrollment.”
- For the 153 charter schools that were deemed to be LEAs (charter school LEAs) for Title I purposes, CDE could not provide evidence that 65 of the charter school LEAs, which received about \$5.6 million in Title I funds in school year 2001-2002, had approved LEA plans. Additionally, CDE did not have procedures to ensure timely allocations to new or expanding charter school LEAs that were on nontraditional calendars. CDE lacked written procedures on its internal process for determining Title I allocations and did not retain documentation for adjustments made to the allocations after receipt of charter school LEAs’ applications. Moreover, CDE should enhance its procedures to ensure data reported by charter school LEAs, which by-pass LEA and County Office of Education reviews, are accurate and complete.
- Three of the LEAs did not have procedures to use actual data to adjust Title I allocations for expanding charter schools that were deemed to be public schools of the LEAs. The remaining LEA did not determine Title I eligibility and allocations for all charter schools in the same manner as other public schools. Additionally, one of the LEAs did not have adequate procedures to ensure that new or expanding charter schools had timely access to Title I funds. CDE did not monitor LEA compliance with the ESEA requirements to ensure eligible new or expanding charter schools received their proportionate share of Title I funds.

We recommend that the Deputy Under Secretary for Innovation and Improvement (OII) require CDE to provide additional guidance to LEAs and confirm that LEA policies, procedures, and disseminated information address requirements for expanding charter schools. We further recommend that OII, in collaboration with the Assistant Secretary for Elementary and Secondary Education (OESE), require CDE to either submit the appropriate documentation or ensure that eligible LEAs, which had approved LEA plans, receive their proportionate share of Title I funds for school year 2001-2002; and to strengthen its procedures to ensure Title I allocations to charter school LEAs are timely and proportionate.

¹ For purposes of this report, an “expanding” charter school is one that has significantly expanded enrollment in accordance with the Federal definition at 34 C.F.R. § 76.787, which we describe in the AUDIT RESULTS section of this report.

Where LEAs are responsible for allocating Federal funds to charter schools, we recommend that OII, in collaboration with OESE, require CDE to ensure the LEAs have the necessary procedures for allocating Title I funds to new or expanding charter schools of the LEAs. Additionally, we recommend that CDE be required to ensure that public schools, which were adversely affected by the one LEA's improper allocation to a charter school, receive their proportionate share of Title I funds for school year 2001-2002; and that LEAs modify their procedures, as needed, to make certain eligible new or expanding charter schools receive their Title I funds in a timely manner.

The OTHER MATTERS section of the report provides information on the various special education funding and service-delivery arrangements the four LEAs we reviewed had with charter schools. We concluded that these arrangements were consistent with State charter school law, but the arrangements may not be consistent with the IDEA requirement that, if a charter school is a public school of an LEA, the LEA must provide services and funding under Part B of the IDEA for children with disabilities in the same manner as it provides services and funds under Part B of the IDEA to its other public schools.

In its comments on the draft report, CDE stated that it is researching and assessing the finding and recommendation regarding its providing Title I funds to charter school LEAs without evidence of an approved LEA plan. CDE indicated that it concurred with our other findings and recommendations. CDE also provided technical corrections, which we have incorporated into the report where appropriate. Based on CDE's corrections and comments, we added a recommendation that OII, in collaboration with OESE, require CDE to either submit the appropriate documentation or ensure that eligible LEAs, which had approved LEA plans, receive their proportionate share of Title I funds for school year 2002-2003. CDE's comments on the draft report are summarized at the end of each finding and included in their entirety as ATTACHMENT 1.

BACKGROUND

The ESEA, Title I, Part A provides financial assistance to improve the teaching and learning of low-achieving children in high-poverty schools. The IDEA, Part B § 611 provides grants to states for special education and related services for children with disabilities. Section 5206 of the ESEA, as amended by the No Child Left Behind Act of 2001 (NCLB), requires the Department and states to take measures to ensure that every charter school receives the Federal formula funds, including Title I and IDEA, Part B funds, for which it is eligible no later than five months after the school first opens or expands enrollment.²

The California State Legislature enacted the State charter school law in 1992. The State law provides that an LEA, County Office of Education, or State Board of Education can authorize a charter school. A total of 388 charter schools were operating in school year 2001-2002, including 71 new charter schools.³ Over 90 percent of the charter schools were authorized by LEAs. A total of 53 charter schools were authorized by the four LEAs we reviewed—Los Angeles Unified School District (USD), Long Beach USD, San Francisco USD, and San Juan USD.

Number of Public Schools in Four LEAs, School Year 2001-2002			
			Charter Schools
Los Angeles USD	Los Angeles	663	39
Long Beach USD	Los Angeles	90	6
San Francisco USD	San Francisco	113	4
San Juan USD	Sacramento	86	4
TOTAL			53

California State law allows charter schools to elect to be directly funded for purposes of receiving state and local operational funding. State law deems these direct-funded charter schools to be LEAs (charter school LEAs) for purposes of State and Federal categorical funding programs, such as the Title I program. At the time of our review, there were 153 charter school LEAs. The remaining 235 charter schools were deemed to be public schools of the respective LEAs. For school year 2001-2002, CDE allocated a total of about \$1.1 billion in Title I funds to 1,034 LEAs, including about \$5.5 million to 65 charter school LEAs. The individual LEAs were responsible for determining Title I eligibility and allocations for the charter schools and other public schools of the LEAs.

For purposes of compliance with the IDEA, California State law deems a charter school to be a public school of the LEA that authorized the charter regardless of the charter school's status for Title I. However, the State law provides an exception for those charter schools that elect to be an LEA for IDEA purposes, provided the schools meet the special education conditions required of other LEAs. According to CDE Special Education and Charter School Division consultants,

² The ESEA § 5206 was originally enacted by the Charter School Expansion Act of 1998.

³ Statewide data on the number of expanding charter schools were not available.

about five charter schools had elected to be an LEA for special education purposes (special education charter school LEA) for school year 2001-2002.⁴ CDE allocated IDEA, Part B funds totaling about \$582 million for school year 2001-2002 to 116 Special Education Local Plan Areas (SELPA) for distribution to their member-LEAs as determined by each SELPA's allocation plan.⁵ The LEA is responsible for ensuring that appropriate services are provided to special education students who are enrolled in a charter school of the LEA and that the charter school complies with the IDEA. CDE holds a special education charter school LEA responsible for providing all services to enrolled special education students pursuant to their individualized education programs.

For school year 2001-2002, CDE allocated about \$266 million in Title I funds and about \$94 million in IDEA, Part B funds to the four LEAs we reviewed. Most of the charter schools in these LEAs were deemed to be public schools of the LEA for Title I purposes. The charter schools authorized by these LEAs were public schools of the LEAs for special education purposes.

Charter School Status, School Year 2001-2002			
			IDEA, Part B
			Public School of the LEA
Los Angeles USD	30	9	39
Long Beach USD	4	2	6
San Francisco USD	3	1	4
San Juan USD	3	1	4

⁴ Statewide data on the number of special education charter school LEAs were not available.

⁵ A SELPA is comprised of one or more LEAs. Each of the four LEAs we reviewed is a single-district SELPA—that is, the LEA is also the SELPA. A special education charter school LEA must participate in a SELPA and is accountable for acting under and implementing the local plan.

AUDIT RESULTS

The purpose of the audit was to examine charter schools' access to Federal funds in the State of California. Specifically, we determined whether CDE and four LEAs within the State (1) provided new or expanding charter schools with timely and meaningful information about the Title I and IDEA, Part B funding for which these schools might have been eligible, and (2) had management controls that ensured charter schools, including new or expanding schools, were allocated the proportionate amount of Title I and IDEA, Part B funds for which these schools were eligible. Our review covered school year 2001-2002. We concluded that CDE should enhance information provided to charter schools about the ESEA § 5206 requirements for new or expanding charter schools; strengthen procedures to ensure that Title I allocations to charter school LEAs are fully documented, timely, and proportionate; and take additional steps to ensure charter schools that are public schools of the LEAs receive proportionate and timely access to Title I funds. We concluded that the four LEAs had adequate management controls to ensure that eligible charter schools of the LEAs, including new or expanding charter schools, received the proportionate amount of IDEA, Part B funds.

FINDING NO. 1 – CDE Should Enhance Information Provided to Charter Schools About the ESEA § 5206 Requirements for New or Expanding Charter Schools

CDE and the four selected LEAs provided timely and meaningful information to new charter schools about accessing Title I and IDEA, Part B funds. However, CDE and three of the LEAs need to provide additional information to existing charter schools on (1) providing written notification of their expansion dates within 120 days and (2) defining “significant expansion of enrollment.” We concluded that the remaining LEA had provided timely and meaningful information to both new and existing charter schools on the means for fulfilling the written notice requirement and the definition of an expanding charter school. While Federal statute and regulations place the responsibility on charter schools to provide written notice when they significantly expand enrollment, most of the 20 charter schools we interviewed were unaware of this requirement.

New or Expanding Charter Schools Must Provide Written Notice to Trigger ESEA § 5206 Requirements

To trigger the ESEA § 5206 requirements, a new or expanding charter school must provide written notification of its opening or expansion date. The implementing regulations at 34 C.F.R. Part 76 address the requirement for written notice, the definition of “significant expansion of enrollment,” and the requirement for the State educational agency (SEA) or LEA, after receiving a notice, to provide timely and meaningful information about Federal programs. The regulations state—

At least 120 days before the date a charter school LEA is scheduled to open or significantly expand its enrollment, the charter school LEA or its authorized public chartering agency must provide its SEA with written notification of that date.

34 C.F.R. § 76.788(a)

Significant expansion of enrollment means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that the SEA determines to be significant.

34 C.F.R. § 76.787

Upon receiving notice under § 76.788(a) of the date a charter school LEA is scheduled to open or significantly expand its enrollment, an SEA must provide the charter school LEA with timely and meaningful information about each covered program in which the charter school LEA may be eligible to participate . . .

34 C.F.R. § 76.789(a)

The Department defined “meaningful information” in nonregulatory guidance entitled, *How Does a State or Local Educational Agency Allocate Funds to Charter Schools that Are Opening for the First Time or Significantly Expanding their Enrollment*, issued December 2000.

A State or LEA provides . . . meaningful information to a charter school when it provides the charter school with the information the charter school reasonably needs to know to make an informed decision about whether to apply to participate in a particular covered program and the steps the charter school needs to take to do so.

The regulations at 34 C.F.R. § 76.799 require an LEA to also follow the above regulations when the LEA is responsible for allocating Federal funds, such as Title I and IDEA, Part B, to charter schools.

CDE and Three LEAs Did Not Provide Sufficient Information to Charter Schools

CDE did not provide information to charter schools, or guidance to LEAs, on written notices of expansion or the definition of “significant expansion of enrollment” for purposes of allocating Title I and IDEA, Part B funds to charter schools. Three of the four LEAs we reviewed also had not provided similar information to their charter schools that were public schools of the LEAs.

Although we found that charter school LEAs and charter schools that were public schools of the three LEAs generally did not provide written notice of expansion dates, most charter school representatives we interviewed said their schools had provided information that would have made CDE or the LEA aware of their expansion. Representatives from three of the seven charter school LEAs we interviewed told us that their schools had significantly expanded enrollment, and two of these schools had made CDE aware of their expansion through other reporting mechanisms such as a request for facilities. Yet, according to the CDE Fiscal Services analyst

responsible for determining Title I eligibility and allocations, no one had informed him of any expanding charter school LEAs.

We conducted interviews with representatives of 10 charter schools that were public schools of the LEAs we reviewed. Representatives from five charter schools stated that their schools had expanded in school year 2001-2002. Additionally, four of the five charter schools had provided the LEA with information that would have made the LEA aware of their expansion. An example from each of the three LEAs illustrates the variations in the extent of charter school expansions and type of information made available to the LEA.

- Los Angeles USD. A charter school of the LEA had added a grade and increased enrollment by 178 percent. A charter school representative told us that the school had notified CDE of its expansion in the annual Charter School Survey, but did not notify the LEA responsible for allocating Federal funds. According to the LEA's Charter Schools Director, Los Angeles USD did not consider this or any other charter schools' expansion as significant. The LEA did not provide information to charter schools or have procedures that addressed how a charter school should notify the LEA of its expansion.
- San Juan USD. An Associate Superintendent that oversees charter schools said that the LEA did not consider any expansion anticipated in the charter as significant, even though one charter school had added a new program and increased enrollment by 690 students, or 24 percent. According to the charter school representative, the school had indirectly notified the LEA of its expansion through ongoing communication and the LEA's attendance tracking system. San Juan USD did not provide information to charter schools or have procedures that addressed how an expanding charter school should notify the LEA.
- San Francisco USD. According to the Assistant Superintendent for Charter Schools, none of the charter schools of the LEA had expanded because they had reached full capacity. Yet, a representative from one charter school told us that it had added a grade and increased enrollment by 35 percent. Although San Francisco USD was not aware of the one charter school that appeared to have expanded, the Assistant Superintendent told us that the LEA in effect had waived the requirement for written notice because, as the charter authorizer, the LEA was aware of charter school expansion plans.

Regardless of the method by which the charter school informed the LEAs of their expansion, the three LEAs did not have policies and procedures that recognized expanding charter schools. A charter school needs sufficiently meaningful information to know when its expansion is considered significant as well as to whom and by what method, if any, to provide written notice.

In response to our review, CDE began in school year 2003-2004 to use its annual Charter School Survey to (1) provide information to charter schools on the definition of "significant expansion of enrollment" and (2) request charter schools to identify whether they will be significantly expanding enrollment for the following school year. CDE has now defined significant expansion as a significant event such as adding a grade or a program, and at least a 10-percent increase in enrollment.

Since the Charter School Survey is only provided to charter schools, CDE still needs to take steps to ensure that LEAs have procedures that address significant expansion of enrollment and written notice requirements for expanding charter schools that are public schools of the LEAs. Additionally, absent CDE guidance prior to school year 2003-2004, some LEAs may have developed policies and procedures that are inconsistent with CDE's new definition of significant expansion. For example, Long Beach USD had defined significant expansion as an event such as adding a grade and an increase in enrollment of at least 20 students. CDE should ensure that LEAs adhere to its definition of significant expansion of enrollment. Similar to San Francisco USD, the Long Beach USD did not require expanding charter schools to provide separate written notice because expansions would be identified in the charter petition or a charter amendment. CDE should consider sharing data from the annual Charter School Survey with the LEAs to minimize the reporting burden on charter schools and ensure that LEAs receive written notice of expanding charter schools.

Recommendations

The Deputy Under Secretary for Innovation and Improvement should require CDE to—

- 1.1 Provide guidance to all LEAs on the definition of “significant expansion of enrollment” and, for those LEAs that allocate Federal funds to charter schools, guidance on LEA responsibilities regarding expanding charter schools.
- 1.2 Confirm that LEAs have developed procedures to provide timely and meaningful information to charter schools of the LEAs on the definition of “significant expansion of enrollment” and the manner in which the requirement for written notice will be satisfied.

CDE Comments

CDE indicated that it concurred with the finding and recommendations in its planned corrective actions. For fiscal year 2004-2005, CDE stated it plans to send a letter to all charter schools, school districts, and County Offices of Education informing them of the requirements of the Charter School Expansion Act and CDE's definition of “significant expansion of enrollment.” Additionally, CDE will explore incorporating procedures into its Federal and State monitoring process to verify that LEAs have developed required procedures.

FINDING NO. 2 – CDE Needs to Strengthen Procedures to Ensure that Charter School LEAs Have Approved Plans and Title I Allocations Are Timely and Proportionate

CDE used the same process for allocating Title I funds to charter school LEAs as it used for other LEAs. CDE collected prior year enrollment and poverty data from County Offices of Education on public schools, including charter schools. Based on the data, CDE determined eligibility and allocation amounts and informed each LEA, including eligible charter school LEAs, of their Title I allocations for the coming school year. To access their Title I allocations, eligible LEAs had to submit a consolidated application and have an approved LEA plan. Upon approval of the application, CDE disbursed the first apportionment of Title I funds to those LEAs that elected to participate in the Title I program.

CDE Provided Title I Funds to Charter School LEAs Without Evidence of an Approved LEA Plan

To receive Title I funds, the ESEA requires an LEA to have on file with the SEA an approved LEA plan. Under Title I of the ESEA, § 1112(a)(1) states—

A local educational agency may receive a subgrant under this part for any fiscal year only if such agency has on file with the State educational agency a plan, approved by the State educational agency, that is coordinated with other programs under this Act, the Goals 2000: Educate America Act, and other Acts, as appropriate . . . ⁶

CDE could not provide evidence that the 65 charter school LEAs, which received about \$5.6 million in Title I funds in school year 2001-2002, had approved LEA plans on file with CDE.⁷ Due to management and staff turnover, as well as weaknesses in CDE procedures for retaining supporting documentation, the State Title I Director could not provide documentation that the charter school LEAs had submitted plans or that CDE had approved them for school year 2001-2002. Administrative regulations at 34 C.F.R. § 80.42(b) require that programmatic documentation be retained for three years. Since CDE could not provide evidence of approved plans on file, there was no assurance that the charter school LEAs had met the ESEA § 1112(a)(1) condition for receipt of Title I funds. As a result, eligible LEAs, which had approved plans, may not have received their proportionate share of Title I funds. Also, there is no

⁶ This citation is from the Improving America's Schools Act of 1994, which was the applicable statute in effect for our audit period. The NCLB also incorporated the requirement for an approved LEA plan, but changed the programs with which the LEA plan must be coordinated to "other programs under this Act, the [IDEA], Carl D. Perkins Vocational and Technical Education Act of 1998, the McKinney-Vento Homeless Assistance Act, and other Acts, as appropriate." [ESEA § 1112(a)(1), as amended by the NCLB]

⁷ In its comments on the draft report, CDE noted that LEA plans were called "local improvement plans (LIP)" in school year 2001-2002.

assurance that the charter school LEAs that received the \$5.6 million of Title I funds had acceptable plans for using the funds.

Our interviews with representatives from seven charter school LEAs confirmed that some charter school LEAs, which received Title I funds, may not have completed an LEA plan. The representatives from four of the charter school LEAs confirmed that the LEAs had applied for and received Title I funds for school year 2001-2002. One of the representatives informed us that the charter school had not completed an LEA plan. Since the ESEA § 1112(a)(1) required CDE to have approved plans on file, we did not take steps to obtain the plans or evidence of state approval from the charter school LEAs.

According to the State Title I Director, CDE has taken steps to improve its procedures for ensuring LEAs have approved plans and retaining supporting documentation. For school year 2003-2004, CDE required LEAs, including charter school LEAs, to submit new LEA plans. Additionally, CDE required charter school LEAs to have an approved LEA plan as a condition of receipt of Title I funds for that school year.

CDE Did Not Have Adequate Procedures to Ensure Title I Allocations to Charter School LEAs Were Timely and Proportionate

The regulations at 34 C.F.R. § § 76.792(a) and 76.793(a) require states and LEAs to ensure that eligible new or expanding charter schools that open or expand on or before November 1 of an academic year receive a proportionate amount of Federal funds, and that these charter schools have access to the funds within five months of their opening or expansion. When the SEA is responsible for allocating Federal funds to charter school LEAs, the regulations state—

For each eligible charter school LEA that opens or significantly expands its enrollment on or before November 1 of an academic year, the SEA must implement procedures that ensure that the charter school LEA receives the proportionate amount of funds for which the charter school is eligible under each covered program.

34 C.F.R. § 76.792(a)

For each eligible charter school LEA that opens or significantly expands its enrollment on or before November 1 of an academic year, the SEA must allocate funds to the charter school LEA within five months of the date the charter school LEA opens or significantly expands its enrollment . . .

34 C.F.R. § 76.793(a)

Untimely Allocations to New Charter Schools with Nontraditional Calendars. CDE did not have procedures to ensure timely access to Title I funds for new or expanding charter schools that began the school year earlier than August or September. For school year 2001-2002, CDE disbursed Title I funds to eligible charter school LEAs and other eligible LEAs in January 2002. The four new charter school LEAs that had opening dates in July 2001 received Title I funds at the same time as other LEAs, which was more than five months after the schools' July 2001 opening dates.

Lack of Written Procedures for Eligibility Determinations, Allocation Calculations, and Document Retention. CDE did not have written procedures on its internal process for determining Title I eligibility and allocation amounts for LEAs, including charter school LEAs. Only one staff person was familiar with the allocation database and the process. As a result of staff turnover in the year preceding our audit period, the CDE staff person who performed the eligibility and allocation calculations for school year 2001-2002 could not verify or document the adjustments made to some charter schools' allocations after their applications were submitted to CDE. While we did not identify any allocation errors, the absence of written procedures provided no assurance that CDE's allocation process will be consistent from year to year and that future LEA Title I allocations will be proportionate. In response to our review, CDE began to develop written procedures for creating and updating the database used to determine LEA eligibility and allocations for Title I, as well as to retain documentation supporting allocation changes made after receipt of LEA applications.

Reliability of Charter School-Reported Data Not Assured. CDE should enhance procedures to ensure that eligibility data reported by charter school LEAs are accurate and complete. CDE annually collects poverty data for all public schools for Title I allocation and other purposes. County Offices of Education (COEs) collect the poverty data for LEAs within the county, work with the LEAs to perform checks of the data's accuracy, and forward the data to CDE with a signed certification that the data were verified. According to a CDE Fiscal Services supervisor and analyst responsible for calculating Title I eligibility and allocations, CDE relies on the COEs to verify the data before submission to CDE.

Los Angeles USD and Long Beach USD submitted poverty data to the Los Angeles COE for public schools of the LEAs and some charter school LEAs. The other charter school LEAs (four of the eight charter school LEAs in Los Angeles and the two charter school LEAs in Long Beach) reported the poverty data directly to the COE. According to the current COE staff responsible for submitting the data to CDE, insufficient information was available at the County to verify the data directly submitted by the charter school LEAs and CDE had given permission to the COE to allow charter school LEAs, which submit poverty data directly to the COE, to by-pass the verification process.

We did not verify the accuracy of the poverty data for charter schools in Los Angeles USD and Long Beach USD as part of our audit. However, the potential exists for charter school LEAs, which by-pass the LEA and COE processes, to be at-risk for inaccurate student counts due to double counting, intentional inflation of counts, or erroneous reporting of too few students. Without accurate and complete data, there is no assurance that the Title I allocations to those charter school LEAs were proportionate.

Recommendations

The Deputy Under Secretary for Innovation and Improvement, in collaboration with the Assistant Secretary for Elementary and Secondary Education, should require CDE to—

- 2.1 Submit documentation of approved LEA plans for the 65 charter school LEAs, which received about \$5.6 million in Title I funds for school year 2001-2002. Ensure that LEAs that did not receive their proportionate share of Title I funds for school year 2001-2002, as a result of providing funds to charter school LEAs without approved LEA plans, are

provided their proportionate share. These actions will provide a level of assurance that the \$5.6 million of Title I funds has been or will be used efficiently since the charter school LEAs and other LEAs receiving the funds would have had acceptable plans for using the funds.

- 2.2 Develop written procedures for ensuring eligible new or expanding charter school LEAs, which are not on a traditional calendar, receive access to their Title I allocations within five months of their opening or expansion dates, provided that charter school LEAs have met CDE's requirements for written notice at least 120 days prior to their opening or expansion.
- 2.3 Complete and implement written procedures for creating and updating the database used to determine LEAs' eligibility and allocations for Title I, as well as procedures for documenting adjustments made to allocations after receipt of LEA applications.
- 2.4 Develop additional written procedures for ensuring the accuracy and completeness of Title I poverty data submitted by charter school LEAs that by-pass local LEA and COE reviews.
- 2.5 Submit documentation of approved LEA plans for those charter school LEAs that received Title I funds for school year 2002-2003. Ensure that LEAs that did not receive their proportionate share of Title I funds for 2002-2003, as a result of providing funds to charter schools without approved LEA plans, are provided their proportionate share.⁸

CDE Comments and OIG Response

CDE indicated that it concurred with the finding and recommendations, except it is researching and assessing the finding and recommendation regarding its providing Title I funds to charter school LEAs without evidence of an approved LEA plan. CDE stated that it enhanced procedures in school year 2003-2004 to ensure LEAs, including charter school LEAs, have approved LEA plans. CDE will also ensure that only LEAs with approved LEA plans receive appropriate Title I apportionments.

CDE stated that it is developing written procedures to ensure eligible new or expanding charter school LEAs receive their Title I allocation within five months of their opening or expansion dates. Additionally, CDE began developing written procedures for creating and updating the database used to determine LEAs' Title I eligibility and allocations. CDE created a filing system to maintain documentation of changes or adjustments to LEA data, and will explore incorporating a procedure to ensure the accuracy and completeness of Title I data submitted by charter school LEAs.

In its comments, CDE advised that it required charter school LEAs to have an approved LEA plan as a condition of receipt of Title I funds for school year 2003-2004. In the draft report, we stated in the sub-section "CDE Provided Title I Funds to Charter School LEAs Without Evidence

⁸ Since our audit covered school year 2001-2002, we did not have the information necessary to estimate the Title I funds for school year 2002-2003 that may have been used more efficiently by the implementation of Recommendation 2.5.

of an Approved Plan” that CDE had implemented the requirement for school year 2002-2003. We made the correction in the final report. Although our review covered school year 2001-2002, CDE’s comments have raised the question of whether charter school LEAs that received Title I funds in the intervening year (school year 2002-2003) had approved LEA plans. To address the concern, we have added Recommendation 2.5.

FINDING NO. 3 – CDE Needs to Take Additional Steps to Ensure Charter Schools that Are Public Schools of an LEA Receive Proportionate and Timely Access to Title I Funds

The four LEAs we reviewed had systems in place to allocate Title I funds to charter schools that were public schools of the LEAs. However, the LEAs did not have adequate procedures in place to ensure that eligible charter schools received proportionate and timely access to those funds.

When an LEA is responsible for allocating Federal funds, including Title I, to charter schools that are public schools of the LEA, the regulations at 34 C.F.R. § 76.799 require the LEA to comply with the ESEA § 5206 requirements on the same basis as is required of the SEA, which allocates Federal funds to charter school LEAs. Thus, under the regulations at 34 C.F.R. § 76.792(a) and 76.793(a), an LEA must ensure that eligible new or expanding charter schools receive a proportionate amount of Federal funds and that these charter schools have access to the funds within five months of their opening or expansion, if that date occurs before November 1.

Three LEAs Did Not Have Procedures to Use Actual Data to Adjust Title I Allocations for Expanding Charter Schools

Federal regulations at 34 C.F.R. §§ 76.789(b), 76.796, and 76.797(a) allow an LEA to use enrollment or eligibility data from a prior year to estimate a new or expanding charter school’s projected enrollment and to make an initial allocation of Federal funds based on this data. If the LEA provides funds to a new or expanding charter school based on projected data, the LEA must later use actual data to adjust the allocation, if appropriate, after the school opens or expands. The regulations state—

[An LEA] may allocate funds to, or reserve funds for, an eligible [charter school] based on reasonable estimates of projected enrollment at the [charter school].
34 C.F.R. § 76.789(b)(2)

An [LEA] that allocates more or fewer funds to a [charter school] than the amount for which the [charter school] is eligible, based on actual enrollment or eligibility data when the [charter school] opens or significantly expands its enrollment, must make appropriate adjustments to the amount of funds allocated to the [charter school] as well as to other [public schools] under the applicable program.

Any adjustments to allocations to [charter schools] under this subpart must be based on actual enrollment or other eligibility data for the [charter school] on or after the date the [charter school] first opens or significantly expands enrollment, even if allocations or adjustments to allocations to other [public schools] in the [LEA] are based on enrollment or eligibility data from a prior year.

34 C.F.R. § 76.796(a) and (b)

The [LEA] must make any necessary adjustments to allocations under a covered program on or before the date the [LEA] allocates funds to [public schools] under the program for the succeeding academic year.

34 C.F.R. § 76.797(a)

We found that three of the four LEAs we reviewed did not have procedures to use actual data to adjust Title I allocations for charter schools that significantly expand enrollment. Los Angeles USD, San Francisco USD, and San Juan USD each determined Title I eligibility and allocations for public schools of the LEA, including charter schools, using prior-year enrollment and poverty data. LEA staff responsible for performing eligibility determinations and allocation calculations were not instructed to adjust their calculations and were not informed that any charter schools had significantly expanded. In Los Angeles USD, the lack of procedures may have affected one charter school that had expanded by adding a grade and increasing enrollment by 178 percent. Had its allocation been adjusted, the charter school might have received an additional \$40,604 (182 percent increase) in its Title I allocation.

Long Beach USD Did Not Determine Title I Eligibility and Allocations for Charter Schools in the Same Manner as Other Public Schools

The Department informed states and LEAs that charter schools of the LEAs are to be treated the same as other public schools of the LEAs in nonregulatory guidance entitled, *Allocations to Public Charter Schools Under Title I, Part A of the Elementary and Secondary Education Act*, issued March 1998.

[W]hen allocating Title I, Part A funds, . . . LEAs must treat public charter schools in a manner consistent with the Title I statute and regulations and take all reasonable steps to ensure that public charter schools receive their full allocations. . . . If a State considers public charter schools to be public schools within an LEA, an LEA must treat its public charter schools like other public schools in determining eligibility and within-district allocations.

Under Title I regulations at 34 C.F.R. § 200.28(c), an LEA need not allocate the same per-pupil amount to each school of the LEA, but cannot allocate a higher amount per child to schools with lower poverty rates than to schools with higher poverty rates. The regulations state—

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.

Allocations to Private School Students and a Public Charter School. Long Beach USD improperly allocated Title I funds for eligible private school students and one charter school. The LEA used a sliding scale to determine per-pupil funding levels corresponding to varying poverty levels. For school year 2001-2002, the LEA used the highest per-pupil amount for private school students and the charter school even though their attendance areas had lower poverty levels than other public schools of the LEA. As a result of this improper practice, Long Beach USD improperly allocated an excess of \$4,815 in Title I funds to one charter school.⁹

The OIG previously informed Long Beach USD of its improper allocations for private school students in a letter, dated November 17, 1999. On August 11, 2003, we issued an Interim Audit Letter advising CDE that Long Beach USD had not taken the necessary corrective action. In its response to the Interim Audit Letter, CDE stated that, beginning in fiscal year 2003-2004, Long Beach USD has revised its Title I allocation practice for charter schools and private schools. Under the LEA's revised procedures, eligible charter schools will receive the same per pupil amount as the other public schools of the LEA and eligible private school students will receive the same per pupil amount as the public school students residing in the same attendance areas.

Use of Appropriate Year's Data. Long Beach USD used actual data to determine Title I eligibility and allocations for three charter schools,¹⁰ when prior-year data were used for other public schools. The use of actual data was appropriate for the two new charter schools, but the remaining charter school was not new and had not expanded. Thus, the LEA did not treat the charter school like other public schools of the LEA. Had the LEA properly used prior-year data for this school, the school would not have been eligible for, or received, any of the \$48,685 Title I allocation that was based on actual data. As a result of the LEA's improper allocation to the one charter school, other public schools of the LEA, including the two new charter schools, were adversely affected and received less than their proportionate share of Title I funds for school year 2001-2002. Long Beach USD did not have procedures to ensure the proper year's data were used for determining Title I eligibility and allocations for charter schools, based on their new, expanded, or no-change status.

San Francisco USD Did Not Have Adequate Procedures to Ensure New or Expanding Charter Schools Had Timely Access to Title I Funds

Under its existing procedures, San Francisco USD distributed categorical State and Federal funds, including Title I, in one lump sum to eligible charter schools. The three charter schools of the LEA were not eligible for Title I or other ESEA funds for school year 2001-2002. However, due to staff turnover, the three charter schools did not receive their State categorical funds for school years 2001-2002 and 2002-2003 until April 2003, or more than five months after that school year began in September 2002. Had a new or expanding charter school been found

⁹ Our current review addressed allocations to charter schools. Therefore, we did not determine the amount of excessive Title I funds allocated for private school students for school year 2001-2002.

¹⁰ By not submitting the necessary data to the LEA, the other charter school of the LEA had opted not to participate in the Title I program.

eligible, it would have received its Title I funds more than five months after its opening or expansion dates. The LEA needs to have procedures to ensure timely access to Title I and other Federal funds should there be an eligible new or expanding charter school in the future.

The other three LEAs we reviewed did not need additional procedures regarding the 5-month requirement for new or expanding charter schools. Existing procedures at the three LEAs would have distributed Title I funds to any eligible charter school within five months of the first day of school.

CDE Did Not Monitor LEA Compliance with ESEA § 5206 Requirements

The State is responsible for ensuring LEAs comply with the ESEA § 5206 requirements. In the preamble to the 1999 final implementing regulations, the Secretary responded to a comment on the need for expanded regulations to address LEA-specific circumstances, stating—

States are directly responsible for ensuring that LEAs meet the requirements of section [5206] of the Act and these final regulations. Accordingly, the Department expects that some SEAs may also provide guidance to LEAs on these matters.

64 FR 71972

CDE had a system in place to provide technical assistance on, and monitor, LEA compliance with Title I, but this system did not address charter schools' access to Title I funds when the LEA was responsible for allocating those funds to charter schools of the LEA. Additionally, CDE guidance to LEAs was limited to a March 2000 memo, which CDE's Special Education Division provided to SELPAs, LEAs, and charter schools, clarifying the responsibility of LEAs and SELPAs regarding the IDEA and charter schools, and summarizing the Federal regulations implementing the ESEA § 5206.

Based on our reviews at four LEAs, neither CDE's guidance nor its monitoring procedures ensured that LEAs had procedures in place to use actual data to adjust Title I allocations for expanding charter schools; determine Title I eligibility and allocations for charter schools in the same manner as other public schools; and provide new or expanding charter schools with timely access to Title I funds.

Recommendations

The Deputy Under Secretary for Innovation and Improvement, in collaboration with the Assistant Secretary for Elementary and Secondary Education, should require CDE to—

- 3.1 Ensure that LEAs have written procedures addressing LEA and charter school responsibilities when charter schools experience a significant expansion in enrollment, so that LEAs have the information necessary to comply with allocation requirements of the ESEA § 5206 and Title I program. The procedures should address CDE's definition of "significant expansion of enrollment" and the manner for satisfying the requirement for 120-day written notice prior to expansion.

- 3.2 Ensure that, when allocations for other public schools of the LEA are based on prior-year data, the LEAs modify their procedures, as needed, to use actual enrollment or eligibility data to adjust Title I allocations for charter schools that significantly expand enrollment.
- 3.3 Ensure that the public schools, including the two new charter schools, whose allocations were adversely affected by Long Beach USD's improper Title I allocation of \$48,685 to the one charter school, receive their proportionate share of Title I funds for school year 2001-2002.
- 3.4 Ensure LEAs modify their procedures, as needed, so that eligible charter schools that open or expand by November 1 are allocated Title I and other ESEA formula funds within five months of their opening or expansion dates, provided that the charter schools have met the LEA's requirements for written notice at least 120 days prior to their opening or expansion.
- 3.5 Include in its technical assistance and monitoring reviews LEAs' adherence to written procedures related to proportionate and timely allocations of Title I funds to charter schools, including new or expanding charter schools.

CDE Comments

CDE indicated that it concurred with the finding and recommendations. CDE stated that, for fiscal year 2004-2005, it will explore incorporating procedures into its Federal and State monitoring process to confirm that LEAs (1) developed required procedures, (2) used appropriate data to adjust Title I allocations for charter schools that experience significant expansion of enrollment, (3) developed required procedures to notify CDE of new or expanding charter schools that will facilitate payment of Title I funds within five months, and (4) adhered to written procedures related to proportionate and timely allocations of Title I funds to charter schools, including new or expanding charter schools.

OTHER MATTERS

The State of California’s charter school law requires LEAs to treat charter schools the same as other public schools, but also allows charter schools and LEAs to negotiate alternative funding and service delivery arrangements. [California Education Code § 47646] These alternative arrangements may not be consistent with the IDEA, Part B regulations at 34 C.F.R. § § 300.312(c) and 300.241, which state that, if a charter school is considered a school of an LEA, the LEA must (1) serve children with disabilities attending charter schools in the same manner as it serves children with disabilities in its other schools, and (2) provide funds under IDEA, Part B to its charter schools in the same manner as it provides Part B funds to its other schools.

Los Angeles USD, San Francisco USD, and San Juan USD each provided all special education services for other public schools, but had a variety of alternative arrangements with some of their charter schools. Long Beach USD provided special education services for all public schools, including charter schools.

Special Education Funding and Service Delivery Arrangements for Charter Schools of Four LEAs				
	Number of Charter Schools			
				San Juan USD
Funding Arrangement				
LEA determined a special education allocation for charter school in the same or similar manner as other public schools	39	6	3	3
Charter school received monthly apportionments	13	-	-	-
LEA paid third-party service providers on behalf of the charter school	-	-	-	2
LEA reimbursed charter school for services rendered	-	-	1	-
LEA did not flow funds to charter school (LEA provided all services)	26	6	2	1
LEA did not determine an allocation, but reimbursed charter school for services rendered	-	-	1	1
Service-Delivery Arrangement				
LEA provided all services	26	6	2	1
Charter school provided all services	13	-	1	2
Both charter school and LEA provided services	-	-	1	1
				4

CDE Special Education Division and Charter School Division managers informed us that the alternative arrangements the three LEAs had with some charter schools were permissible under State charter school law. Moreover, they stated that CDE defines “treated in the same manner” as the LEAs (1) not discriminating against the charter schools or special education students,

(2) ensuring the special education services available to other public schools of the LEA are available to charter schools, and (3) ensuring the students received a free and appropriate public education.

Our audit addressed the allocation of IDEA, Part B funds only. We had no reportable findings for the LEAs we reviewed regarding the proportionate allocation of IDEA, Part B funds to charter schools. We concluded that the four LEAs' special education funding and service delivery arrangements with charter schools were consistent with State charter school law. We did not evaluate whether CDE was correct in its interpretation of, or in compliance with, 34 C.F.R. § 300.241. The Department plans to seek clarification from CDE regarding State law and the treatment of charter school students with disabilities.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether CDE and selected LEAs within the State of California (1) provided new or expanding charter schools with timely and meaningful information about the ESEA Title I program and IDEA, Part B funding for which these schools might have been eligible and (2) had management controls that ensured charter schools, including new or expanding schools, were allocated the proportionate amount of Title I and IDEA, Part B funds for which these schools were eligible. Our review covered the Title I and IDEA, Part B allocations for school year 2001-2002.¹¹

To address these objectives, we interviewed CDE officials and staff responsible for implementing the Title I, IDEA, Part B, and charter schools programs in California. We evaluated the information that CDE provided to charter schools about accessing Title I and IDEA, Part B funds to determine whether the information was timely and meaningful. In addition, we assessed CDE's procedures to determine whether management controls ensured that charter schools received the proportionate amount of Title I and special education funds for which these schools were eligible.

To evaluate LEA procedures, we selected the four LEAs (Los Angeles USD, Long Beach USD, San Francisco USD, and San Juan USD) that met each of the following criteria: (1) district-wide enrollment was greater than 10,000, with multiple charter schools operating in school year 2001-2002; (2) at least two of the charter schools were new or appeared to have significantly expanded enrollment based on grade span and enrollment; (3) at least two charter schools were deemed to be a public school of the LEA for Title I purposes; and (4) one or more charter schools within the LEA had special education enrollments.

At each LEA, we reviewed procedures and interviewed managers and staff responsible for providing information and allocating Title I and IDEA, Part B funds to charter schools. We reviewed the information the LEA provided to charter schools to assess the information's timeliness and meaningfulness. To determine the accuracy and timeliness of charter school allocations, we reviewed the LEA's Title I and special education allocation processes and decisions.

¹¹ Our review did not cover the charter schools that were chartered by a County Office of Education (20 charter schools), chartered by the State Board of Education (3 charter schools), or were deemed LEAs for purposes of the IDEA (5 charter schools).

We also interviewed administrators from a total of 20 charter schools (seven of Los Angeles USD's 39 charter schools,¹² five of Long Beach USD's six charter schools,¹³ the four charter schools in San Francisco USD, and the four charter schools in San Juan USD). We interviewed the administrators about their experiences in accessing Title I and IDEA, Part B funds, including the timeliness and meaningfulness of provided information.

We assessed the reliability of computer-generated data at CDE and the four LEAs and concluded that the data were sufficiently reliable to use in meeting our audit objective. Specifically, we assessed the database that CDE used to determine LEAs' Title I eligibility and allocations for school year 2001-2002 by verifying data entry to source documents, checking formulas, and verifying reporting of allocations to charter schools. At each LEA, we assessed the reliability of the database used to determine Title I eligibility and allocations for public schools, including charter schools of the LEA, by verifying data to source documents where available, checking formulas, and verifying reporting of allocations to eligible charter schools. At San Francisco USD and San Juan USD, we also assessed the reliability of the computerized information system the LEA used to determine special education staffing or resource allocations by verifying special education enrollment and, where data were available, re-computing or checking the reasonableness of the allocations.

We performed our fieldwork at CDE and LEA offices in Sacramento, Los Angeles, Long Beach, San Francisco, and Carmichael, California, from March to October 2003. We held an exit briefing with CDE officials on November 5, 2003. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described.

¹² To ensure a mix of charter school LEAs and charter schools of the LEA from Los Angeles USD, we selected the one charter school LEA that received no Title I funds, and randomly selected two of the remaining eight charter school LEAs, two of the four charter schools of the LEA for which the LEA could flow Title I and special education funds, and two of the nine charter schools of the LEA for which the LEA provided all Title I and special education services and flowed no related funds.

¹³ One of the charter schools in Long Beach USD was no longer operating at the time of our review.

STATEMENT ON MANAGEMENT CONTROLS

We assessed the system of management controls, policies, procedures, and practices applicable to CDE's and the four selected LEAs' processes for allocating Title I funds to charter schools. We performed our assessment to determine whether the processes used by CDE and the four LEAs provided a reasonable level of assurance that charter schools received needed information and were allocated the proportionate amount of Title I funds for which these schools were eligible.

For the purpose of this report, we assessed and classified significant controls into the following categories—

- Dissemination of information
- Allocation of Title I and IDEA, Part B, funds

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, we identified CDE and LEA management control weaknesses that adversely affected charter schools' receipt of information and Federal funds. CDE's weaknesses included the lack of information on the definition of "significant expansion of enrollment" and written notice requirements, failure to retain supporting documentation, untimely access to Title I funds, lack of written procedures on internal processes, and insufficient monitoring of LEAs. LEA weaknesses included the lack of information and procedures related to expanding charter schools, improper procedures for allocating Title I funds to charter schools, and inadequate procedures to ensure timely access to Title I funds.

ATTACHMENT 1

CDE COMMENTS ON THE DRAFT REPORT



CALIFORNIA
DEPARTMENT OF
EDUCATION

1430 N STREET
SACRAMENTO, CA
95814-5901

JACK O'CONNELL

State Superintendent of
Public Instruction

PHONE: (916) 319-0800

March 5, 2004

Gloria Pilotti
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, California 95814

Dear Ms. Pilotti:

This is the California Department of Education's (CDE) response to the United States Department of Education (USDE) Office of Inspector General's (OIG) draft report entitled, "*Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California.*"

General Comments

CDE would like to clarify a point in your report. In the background section of your report, it states that, "CDE deems these direct-funded charter schools to be LEAs [local education agencies] (charter school LEAs) for purposes of State and Federal categorical programs, such as the Title I program." However, it is state law (*Education Code* § 47641) that deems direct-funded charter schools as LEAs, not CDE.

In addition, CDE would like to clarify terminology and correct two quotes attributed to the State Title I Director regarding Finding No. 2. CDE did not begin using the term LEA plans until No Child Left Behind was implemented. For the fiscal year 2001/2002, CDE used the term local improvement plans (LIP) and conveyed this terminology to the LEAs. Also, the statement, "According to the State Title I Director, CDE required charter school LEAs to have an approved LEA plan as a condition of receipt of Title I funds for school year 2001-2002." This statement should state, "...for school year 2003/2004 under No Child Left Behind." This also applies to the last sentence in this same finding subsection.

Finding No. 1 – CDE Should Enhance Information Provided to Charter Schools About the Elementary and Secondary Education Act of 1965 (ESEA) § 5206 Requirements for New or Expanding Charter Schools

Recommendation No. 1.1

Provide guidance to all LEAs on the definition of “significant expansion of enrollment” and, for those LEAs that allocate Federal funds to charter schools, guidance on LEA responsibilities regarding expanding charter schools.

CDE’s Planned Corrective Action

As stated in the report, CDE defined “significant expansion of enrollment,” and incorporated the definition in the annual Charter Schools Information Sheet and Funding Survey (Funding Survey). In April 2003, CDE sent all charter schools the 2003/2004 Funding Survey to circulate the definition, and gather information from charter schools on whether they will be “significantly expanding.” CDE plans to continue to use the annual Funding Survey to disseminate and collect information on significant expansions.

In addition, prior to mailing the 2004/2005 Funding Survey in April 2004, CDE plans to send a separate letter to all charter schools, school districts, and County Offices of Education (COEs) informing them of the requirements of the Charter Schools Expansion Act (CSEA) and CDE’s definition of “significant expansion of enrollment.”

Recommendation No. 1.2

Confirm that LEAs have developed procedures to provide timely and meaningful information to charter schools of the LEAs on the definition of “significant expansion of enrollment” and the manner in which the requirement for written notice will be satisfied.

CDE’s Planned Corrective Action

For LEAs with federal and state programs, CDE reviews and ensures compliance through its federal and state monitoring process. For the 2004/2005 fiscal year, CDE will explore incorporating procedures into its federal and state monitoring process to verify that LEAs have developed required CSEA procedures.

Finding No. 2 – CDE Needs to Strengthen Procedures to Ensure that Charter School LEAs Have Approved Plans and Title I Allocations Are Timely and Proportionate

Recommendation No. 2.1

Submit documentation of approved LEA plans for the 65 charter school LEAs, which received about \$5.6 million in Title I funds for school year 2001/2002. Ensure that LEAs that did not receive their proportionate share of Title I funds for school year 2001/2002, as a result of providing funds to charter school LEAs without approved LEA plans, are provided their proportionate share.

CDE's Planned Corrective Action

CDE is currently researching and assessing this finding and recommendation. However, for fiscal year 2001/2002, direct-funded charter schools submitted 2001/2002 Consolidated Applications (ConApps) to designate eligibility and to elect to receive Title I funding. The CDE State Board of Education approved the ConApps; and CDE used them as the basis for allocating Title I funds to the 65 direct-funded charter schools.

In the 2003/2004 school year, CDE enhanced procedures to ensure LEAs have approved LEA plans, as required by No Child Left Behind. CDE identified the charter school LEAs that were required to submit LEA plans; obtained their plans; and received approval of these plans by the State Board of Education. CDE's Title I and fiscal office will ensure that only LEAs with approved LEA plans receive appropriate Title I apportionments.

Recommendation No. 2.2

Develop written procedures for ensuring eligible new or expanding charter school LEAs, which are not on a traditional calendar, receive access to their Title I allocations within five months of their opening or expansion dates, provided that charter school LEAs have met CDE's requirements for written notice at least 120 days prior to their opening or expansion.

CDE's Planned Corrective Action

CDE is developing written procedures to ensure eligible new or expanding charter school LEAs receive their Title I allocation within five months of their opening or expansion dates. For funding purposes, CDE identifies new or expanding charter school LEAs through the Funding Survey, monthly updates of all charter schools as provided by CDE's Charter School Division, or through direct contact from new charter schools. CDE is developing a suspense

file/process to monitor all new and expanding charter schools and ensure charter school LEAs receive their allocation within five months of the opening or expansion date.

Recommendation No. 2.3

Complete and implement written procedures for creating and updating the database used to determine LEAs' eligibility and allocations for Title I, as well as procedures for documenting adjustments made to allocations after receipt of LEA applications.

CDE's Planned Corrective Action

As stated in the report, CDE began developing written procedures for creating and updating the database used to determine LEA eligibility and allocation for Title I. For any changes or adjustments to LEA data, CDE requires the LEAs to submit revised forms with the appropriate approvals. In addition, CDE created a filing system to maintain these forms.

Recommendation No. 2.4

Develop additional written procedures for ensuring the accuracy and completeness of Title I data submitted by charter school LEAs that by-pass local LEA and COE reviews.

CDE's Planned Corrective Action

CDE will explore incorporating a procedure to ensure the accuracy and completeness of Title I data submitted by charter school LEAs into the ConApp. All LEAs seeking to receive state and federal categorical funds are required to submit the ConApps annually.

Finding No. 3 – CDE needs to Take Additional Steps to Ensure Charter Schools that Are Public Schools of an LEA Receive Proportionate and Timely Access to Title I Funds

Recommendation No. 3.1

Ensure that LEAs have written procedures addressing LEA and charter school responsibilities when charter schools experience a significant expansion in enrollment, so that LEAs have the information necessary to comply with allocation requirements of ESEA § 5206 and Title I program. The procedures should address the definition of "significant expansion of enrollment," particularly if it is determined that the LEA's definition can be different from CDE's definition, and the manner for satisfying the requirement for 120-day written notice prior to expansion.

CDE's Planned Corrective Action

For the 2004/2005 fiscal year, CDE will explore incorporating procedures into its federal and state monitoring process to verify that LEAs have developed required CSEA procedures.

Recommendation No. 3.2

Ensure that, when allocations for other public schools of the LEA are based on prior-year data, the LEAs modify their procedures, as needed, to use actual enrollment or eligibility data to adjust Title I allocations for charter schools that significantly expand enrollment.

CDE's Planned Corrective Action

For the 2004/2005 fiscal year, CDE will explore incorporating procedures into its federal and state monitoring process to verify that LEAs use appropriate data to adjust Title I allocations for charter schools that experience significant expansion of enrollment.

Recommendation No. 3.3

Ensure that the public schools, including the two new charter schools, whose allocations were adversely affected by Long Beach Unified School District's (USD) improper Title I allocation of \$48,685 to the one charter school, receive their proportionate share of Title I funds for school year 2001/2002.

CDE's Planned Corrective Action

Long Beach USD modified its procedures so that actual data is used to determine Title I eligibility for all schools, including charter schools. All schools that were adversely affected by the improper 2001/2002 Title I allocation of \$48,685 will receive their proportionate share of these funds this current fiscal year.

Recommendation No. 3.4

Ensure LEAs modify their procedures, as needed, so that eligible new or expanding charter schools are allocated Title I and other ESEA funds within five months of their opening or expansion dates, provided that the charter schools have met the LEA's requirements for written notice at least 120 days prior to their opening or expansion.

CDE's Planned Corrective Action

For the 2004/2005 fiscal year, CDE will explore incorporating procedures into its federal and state monitoring process to verify that LEAs have developed required CSEA procedures notifying CDE of new or expanding charter schools, facilitating payment of Title I funds within five months.

Recommendation No. 3.5

Include in its technical assistance and monitoring reviews LEAs' adherence to written procedures related to proportionate and timely allocations of Title I funds to charter schools, including new or expanding charter schools.

CDE's Planned Corrective Action

For the 2004/2005 fiscal year, CDE will explore incorporating procedures into its federal and state monitoring process to determine LEAs' adherence to written procedures related to proportionate and timely allocations of Title I funds to charter schools.

We appreciate the opportunity to comment on your report. If you have any questions, please contact Kim Sakata, Audit Response Coordinator, at (916) 323-2560.

Sincerely,


GAVIN PAYNE
Chief Deputy Superintendent of Public Instruction

GP:ks