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OFFICE OF INSPECTOR GENERAL

Audit Services
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Kathy Cox
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Georgia Department of Education
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Dear Ms. Cox:

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

BACKGROUND

In 2005, Hurricanes Katrina and Rita had a devastating and unprecedented impact on students and teachers in Louisiana, Mississippi, Alabama, and Texas. Schools on the Gulf Coast suffered tremendous damage, requiring the temporary or permanent closure of schools, depending on the extent of damage sustained. The hurricanes' destruction forced students to enroll in the surviving schools outside of their home area. Hurricane Katrina alone displaced about 372,000 students, with over 10,000 students displaced to Georgia. As a result of the devastation, the Federal Emergency Management Agency (FEMA) declared the affected States disaster areas, making them eligible for Federal aid; and Congress appropriated emergency grant funds for the 2005-2006 school year. The *Hurricane Education Recovery Act (HERA)*, passed as part of Public Law 109-148 in December 2005, authorized three new

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

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

GDOE directed the LEAs and non-public schools to provide quarterly head counts of displaced students with counts effective as of October 5, 2005; December 1, 2005; February 1, 2006; and March 24, 2006. GDOE used these counts to support its quarterly submissions to the Department. GDOE received over \$55 million in EIA funding for all four quarters combined, and distributed those funds to each LEA based on its quarterly counts of displaced students submitted for each category – SWD and Non-SWD.

The Assistance for Homeless Youth program, which was also authorized under the HERA, is closely related to the EIA program. The program provided funding to SEAs to assist in meeting the needs of students displaced by Hurricanes Katrina and Rita. The Department used the same information that the SEA provided on its EIA applications to award Assistance for Homeless Youth program funding. GDOE received over \$389,000 in funding for the Homeless Youth program, which was awarded to 32 LEAs on a formula basis using the corrected October hurricane displaced student counts. GDOE allocated program funds to those LEAs reporting 35 or more Katrina students using a Per Pupil Allocation (PPA) of approximately \$42 to assist LEAs in serving homeless children and youth displaced by Hurricane Katrina. LEAs were allowed to use the Homeless Youth program funds on activities allowable under the McKinney-Vento Homeless Assistance Act.

AUDIT RESULTS

We found that all three of the LEAs reviewed in our sample reported inaccurate or unsupported displaced student counts to GDOE in support of the State's submission to the Department. As a result, GDOE may have received more than \$8.2 million in excess of its entitlement for EIA funds. The errors occurred because GDOE and the LEAs had weak internal controls over displaced student counts, and GDOE had no mechanism in place to test the reliability of the information received from LEAs prior to submitting the counts to the Department. Although GDOE established an adequate internal control system to make accurate EIA funding allocations, the allocations were based on inaccurate quarterly counts. In addition, all three of the LEAs reviewed commingled EIA funds with general ledger funds, which prevented the audit team from validating that the funds were used for allowable expenditures as required by the terms of the grant and applicable laws and regulations.

In our review of the Assistance for Homeless Youth program, we found that GDOE had adequate policies, procedures and controls over the administration of the program. The funding allocation calculations were accurate and the allocation methodology was appropriate. At the time of our review, the three LEAs under review had only drawn down 4, 18, and 23 percent of allocated Homeless Youth program funds. We did not test program expenditures because the majority of the funds had not been drawn down and testing would not provide an accurate representation of whether or not the expenditures associated with the program were used within the cost categories allowed by the law. However, in the *Other Matters* section of this report, we note that, in awarding Homeless Youth program funding, the Department used the same student count data that the GDOE provided in its EIA applications – the same counts we found to be inaccurate.

In its response to the draft, GDOE did not state whether or not it concurred with the findings; and did not agree with two of the nine recommendations. Excerpts from GDOE's response are included after each finding and the entire response is included as an attachment to the report.

FINDING No. 1 – Inaccurate or Unsupported Displaced Student Counts

In our review of the supporting documentation for the displaced students at three selected LEAs, we found that (1) all three LEAs incorrectly identified students as displaced, or did not maintain adequate documentation to prove the students' displaced and/or disability status, and/or that the student was enrolled during the quarterly counts; (2) all three LEAs included Pre-Kindergarten (Pre-K) students in the quarterly counts; (3) one LEA counted displaced students more than once in the same quarter and two LEAs simultaneously counted the same displaced students in the same quarter; (4) two LEAs misidentified students as displaced; and (5) one LEA disbursed EIA funds to a non-public school that was not accredited. As a result,

all three LEAs reported inaccurate information to GDOE in support of the State's report to the Department.

Based on the inaccurate reporting, GDOE may have received over \$8.2 million in excess of what the EIA grant allowed for the educational needs of the students displaced by the hurricanes. The questionable dollars associated with the inaccuracies identified at the three LEAs reviewed include

- \$7,947,000 in total projected dollars due to incorrectly classified students;
- \$208,125 due to the inclusion of Pre-K students;
- \$29,250 due to duplicate counts of displaced students;
- \$24,000 due to misidentified displaced students; and
- \$742 due to EIA funds disbursed to a non-public school that was not accredited.

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

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

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

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

According to Volume I of the Department's *Frequently Asked Questions – EIA for Displaced Students*

Displaced pre-school students may be counted if pre-school education is included as part of elementary education by State law. If State law defines elementary education as beginning with kindergarten, preschool students may not be included for any child counts from that state.

Because Georgia defines elementary education to include Kindergarten through grade 12, LEAs were not eligible to receive federal emergency funding for Pre-K evacuees and they should not have been included in the State's displaced student counts.

Further, Volume I of the Department's *Frequently Asked Questions – EIA for Displaced Students* states that an eligible nonpublic school is one that is accredited or otherwise operated in accordance with State law; was in existence on August 22, 2005; and serves at least one student whose family has applied for assistance under the program.

From the list of displaced students provided by each of the three selected LEAs – Dekalb County School System, Gwinnett County Public Schools, and Cobb County School District – we pulled two statistical random samples of displaced students for each of the four quarters of the 2005-2006 school year. The samples included both public and non-public school students with separate samples for SWD and Non-SWD for each quarter. We reviewed documentation provided by the LEAs in support of the displaced and/or SWD status for each student included in our sample. Documentation reviewed included registration forms; permanent records; Individualized Education Plans (IEP); and enrollment, withdrawal, and grade level information. From our student samples, we found students incorrectly classified as displaced and/or SWD. Separate from our sample review, we found Pre-K students included in the displaced student counts; students misidentified as displaced; students counted more than once in the same quarter; and EIA funds disbursed to a non-accredited, non-public school.

Students Incorrectly Classified

At the three LEAs reviewed, students were incorrectly classified and counted as displaced and/or SWD. We reviewed the supporting documentation for a sample of 1,067 displaced students at the three selected LEAs. We found

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

Regarding students not meeting the Department's definition of a displaced student, we found that (1) students' enrollment dates were outside of required count dates, and (2) students transferred from places not considered a hurricane disaster area. Tables 1 through 4 present the results of the displaced student tests.

Table 1: Quarter 1 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	Population	Errors/ Sample Size	Errors due to SWD Documentation (Of Total Errors)
Dekalb	1,748	27/50	72	7/37	2
Gwinnett	1,205	4/50	67	14/34	7
Cobb	1,109	16/50	53	26/28	16
Total Errors		47		47	25

Table 2: Quarter 2 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	LEAs	Population	Errors/ Sample Size
Dekalb	1,618	28/50	101	16/50	9
Gwinnett	1,100	4/50	78	11/40	8
Cobb	1,093	20/50	82	32/41	25
Total Errors		52		59	42

Table 3: Quarter 3 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	Population	Errors/ Sample Size	Errors due to SWD Documentation (Of Total Errors)
Dekalb	1,425	30/50	85	21/43	4
Gwinnett	912	7/50	81	14/41	8
Cobb	944	13/50	70	24/35	15
Total Errors		50		59	27

Table 4: Quarter 4 Results

LEAs	Non-SWD		SWD		
	Population	Errors/ Sample Size	Population	Errors/ Sample Size	Errors due to SWD Documentation (Of Total Errors)
Dekalb	1,290	27/50	85	17/45	3
Gwinnett	843	6/50	75	13/38	7
Cobb	893	8/50	69	27/35	19
Total Errors		41		57	29

The total questionable EIA funding related to the actual errors we found in the samples is \$516,750.¹ After projecting the errors to the universe of displaced students, we project that GDOE received \$7,947,000² in EIA funding for ineligible displaced students for the LEAs reviewed. The sampling results of each LEA contributed to the total projected ineligible EIA funding as follows Dekalb - \$5,273,000; Gwinnett - \$723,000; and Cobb - \$1,951,000.

LEAs Included Pre-K Students in Quarterly Displaced Student Counts

Pre-K students were included in the student counts; specifically, the three LEAs reviewed reported a combined total of 195³ Pre-K students in the counts for all four quarters. Pre-K is not considered part of elementary school curriculum in Georgia; consequently, EIA funds should not have been disbursed to GDOE to assist in educating these students. Of the 195 Pre-K students originally included in the quarterly counts, GDOE adjusted the first quarter count by 60 for all three LEAs reviewed, to reflect those Pre-K students that were incorrectly reported. GDOE's Federal Policy Analyst and Liaison agreed that Pre-K evacuees should not have been included in the displaced student counts. GDOE staff responsible for the funding allocations and reporting the counts to the Department explained that the first quarter count was generated using the state mandated Full-time Equivalent (FTE)⁴ count performed in October 2005. GDOE staff stated that they identified and removed all Pre-K students from the FTE count in April 2006, when the Department allowed states to make corrections. The counts were adjusted based on the number of Pre-K students identified; and GDOE reduced its fourth quarter payment by the amount initially received for the Pre-K students in the first quarter.

Based on our review of the student rosters maintained at the three LEAs, we found that GDOE removed Pre-K students attending public school from the first quarter counts for the LEAs we reviewed. However, when GDOE adjusted its first quarter student counts to reflect Pre-K students reported, GDOE misclassified one Non-SWD as a SWD even though the initial count classified the student as a Non-SWD. As such, GDOE did not return \$375 of quarter one funds related to the inappropriate inclusion of Pre-K students. We also identified four Pre-K students attending non-public schools included in the quarterly counts for which no adjustment was made. Further, we found that GDOE did not remove Pre-K students from the displaced student counts for quarters two through four.

The number of Pre-K students GDOE included in the each of the quarterly counts for both Non-SWD and SWD is shown in Table 5.

¹ We calculated the total based on the errors identified in the four tables – \$1,500 x 190 Non-SWD in error, plus \$1,875 x 222 SWD in error, less \$1,500 x 123 SWD whose error is due to inadequate SWD documentation (this amount is subtracted because we are only questioning the difference of \$375 between the SWD and Non-SWD funding level for the 123 students included in the 222 SWD number).

² We are 95% confident that the ineligible funding GDOE received totaled \$7,947,000 +/- \$775,120.

³ Dekalb reported 174, Gwinnett reported 14, and Cobb reported 7 Pre-K students.

⁴ Statewide count of students attending public schools.

Table 5: Pre-K Students Included in Quarterly Counts

LEAs	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Totals
	Non-SWD	SWD	Non-SWD	SWD	Non-SWD	SWD	Non-SWD	SWD	
Dekalb	0	0 ⁵	47	3	35	4	26	4	119
Dekalb (non-public)	0	0	1	0	1	0	1	0	3
Gwinnett	0	0	4	1	3	1	2	1	12
Gwinnett (non-public)	0	0	1	0	0	0	0	0	1
Cobb	0	0	0	0	0	0	0	0	0
TOTAL	0	0	53	4	39	5	29	5	135⁶

Since GDOE continued to report Pre-K students in its counts, it received \$208,125 in EIA funds related to the Pre-K students incorrectly included in the quarterly counts and not offset in subsequent counts –

Dekalb – \$187,500 (111⁷ Non-SWD x \$1,500) + (11 SWD x \$1,875) + (1⁸ SWD x \$375)

Gwinnett – \$20,625 (10 Non-SWD x \$1,500) + (3 SWD x \$1,875)

Displaced Students Counted Twice or More in Same Quarter

Two of the three LEAs reviewed counted displaced students more than once. We reviewed student lists supporting the final displaced student counts that the three selected LEAs reported to GDOE for all four quarters of 2005-2006. We identified students who were counted twice or more in the same quarter by the same LEA, and students counted by two different LEAs for the same quarter. For three of the four quarters’ reports, we found that 15 students (31 instances) were counted more than once during the same quarter. Fourteen of 15 students were reported twice by the same LEA or two different LEAs for the same quarter. The remaining student was reported three times by the same LEA. In addition, 2 of the 15 students were counted as both Non-SWD and SWD. The results are shown in Table 6 by the error identified.

Table 6: Duplicate Counting of Displaced Students

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Non-SWD Students Counted Twice or More by Same LEA	9 ⁹ (Cobb)	0	2 (Cobb)	1 (Cobb)
Students Counted by Two Different LEAs	3 (Dekalb ¹⁰ and Gwinnett)	0	0	0

⁵ GDOE originally identified 51 Non-SWD and one SWD Pre-K students; but adjusted its first quarter count for all three LEAs reviewed.

⁶ 195 Pre-K students GDOE originally reported minus 60 (adjustments) =135.

⁷ Calculated as follows – 50 (Q1 Non-SWD) + 47 (Q2 Non-SWD) + 35 (Q3 Non-SWD) + 26 (Q4 Non-SWD) = 158 – 50 (Pre-K adjusted in GDOE’s revised counts) + 3 = 111.

⁸ Non-SWD Pre-K student GDOE incorrectly reported as a SWD during its adjustment of its fourth quarter count.

⁹ Two students were counted by this same LEA as both a Non-SWD and SWD.

We judgmentally selected 3 of the 15 students and reviewed the supporting documentation to determine whether or not adequate support was maintained for the reported displaced students. We found that the documentation maintained for all three students was inadequate to substantiate their inclusion in the displaced student counts. These three students were reported as displaced by the LEA a total of seven times and two of the three students were counted as both Non-SWD and SWD.

Based on the Department's allowance for each SWD of \$1,875 and for each Non-SWD of \$1,500, the total questionable EIA funding for duplicative counts is \$29,250 –

Cobb – \$24,750 (14 instances of duplicate counting (13 students Non-SWD) x \$1,500) and (2 SWD x \$1,875)

Gwinnett – \$4,500 (3 non-SWD x \$1,500)

LEAs Misidentified Students as Displaced

Separate from our sampling, we found two LEAs misidentified 13 students as displaced. Dekalb identified 12 instances related to 11 students¹¹ misidentified as displaced. Dekalb officials agreed that these students should not have been included in the original student counts. In addition, Cobb included four instances related to two students misidentified as displaced. It appears that the two students (siblings) included in Cobb's quarterly counts were falsely identified by the parent as hurricane evacuees. Cobb staff determined that the students were not hurricane evacuees. GDOE has not returned the \$24,000 in EIA funds related to the misidentified students at both LEAs –

Dekalb – \$18,000 (12 instances of Non-SWD (11 students) x \$1,500)

Cobb – \$6,000 (4 instances (2 students) of Non-SWD x \$1,500)

EIA Funds Disbursed to Non-public School That Was Not Accredited

We found that Dekalb disbursed funds to a non-public school that was not accredited. According to Dekalb staff, the non-public school returned the check to the district in the amount of \$742.50. Dekalb's Assistant Director of Finance confirmed that the district did not return the funds to GDOE on behalf of the non-accredited school.

¹⁰ We determined that all three students were enrolled in Dekalb during the count date and should have only been counted as such.

¹¹ One student was misidentified as displaced in reported counts for two quarters. All other students misidentified as displaced were only reported in one quarter.

Weak Systems of Internal Control and Inadequate Oversight Contributed to Inaccurate Student Disability Counts

GDOE and the LEAs had weak internal controls over displaced student counts, and GDOE did not test the reliability of the information received from LEAs prior to submitting the counts to the Department. In June 2006, after most of the funds had been disbursed to the LEAs, GDOE contracted with an outside staffing agency to monitor all of the LEAs that received EIA funding. As a result of the monitoring, GDOE identified deficiencies similar to those identified in our review of the three selected LEAs – inaccurate displaced student counts, including students counted as displaced in error; students misclassified as students with disabilities and vice versa; Pre-K school students included in the counts; and documentation not provided for students in a statewide sample. GDOE notified the 67 LEAs reviewed of the monitoring results and requested a return of \$1,089,355¹² based on the deficiencies identified. According to GDOE’s Grants Accounting Manager, LEAs have begun to return funds that were requested in the monitoring summary.

We found that weak systems of internal control over the EIA program at both GDOE and the selected LEAs contributed to the errors identified in our review – inaccurate or unsupported displaced student counts reported to the Department; Pre-K students included in counts; students counted twice or more in the same quarter; students misidentified as displaced; and EIA funds disbursed to an unaccredited school. LEA staff attributed errors identified to data entry errors and transient students, which made it difficult to secure documentation and records. The following are specific examples of weak internal controls identified in our review.

- Displaced students were enrolled without being required to furnish the standard documentation. One LEA’s Student Information Coordinator stated that they reacted to the need to identify displaced students and that many of the parents and students had no form of identification (i.e., driver’s license). The Coordinator further stated that they were instructed to accept the parent’s word as to whether they were evacuees and that the school system was not allowed to turn anyone away. According to GDOE’s General Counsel, many of the evacuees did not have identification, money, utility bills, credit cards, or driver’s license in their possession. Another GDOE staff person stated that staff were instructed to enroll the displaced students under McKinney-Vento, regardless of the circumstances.
- GDOE did not require LEAs to submit the student rosters along with the student counts. According to a GDOE staff member responsible for calculating the EIA funding allocations, SEAs were originally told by the Department to absorb the EIA students as if they were homeless. However, the Department subsequently required supporting documentation for the students. The GDOE staff member added that there was no initial requirement to maintain a student roster – all that was required was the number of students.

¹² GDOE identified deficiencies at 67 LEAs, which resulted in requests for refunds to GDOE. The top three LEAs with questioned costs were Fulton County Schools (\$163,935); Clarke County Schools (\$99,293); and Carrollton City Schools (\$70,390). GDOE did not monitor the three LEAs reviewed in this audit.

- All three of the LEAs included Pre-K students in the quarterly counts. Although GDOE removed most of the Pre-K students from the first quarter counts, two of the three LEAs continued to report Pre-K students. The Interim Chief Financial Officer for one LEA stated that he was informed that daycare children could not be counted. However, the form for reporting displaced students did not ask for grade levels or birthdates; therefore, if a school turned in a name, then that student was considered to be a school age student. The Interim Chief Financial Officer also stated that after the audit, he was informed that Pre-K students should not have been on the lists. According to GDOE's Internal Auditor, the Pre-K students were not removed from subsequent quarters' lists because they could not identify the Pre-K students in subsequent quarters. GDOE staff could remove Pre-K students from the first quarter count based on the reliance on FTE data; however, without the rosters for the remaining three counts, they could not identify which Pre-K students were still included in the counts. Aside from posting the Department's guidance on Pre-K students on GDOE's website for LEAs to review, GDOE's Internal Auditor stated that he did not believe that LEAs were advised not to report Pre-K students. In addition, we found no evidence that GDOE provided any additional guidance to its LEAs to exclude Pre-K students from the quarterly counts.
- According to officials and staff at the three LEAs reviewed, each district used its own student information database (i.e., SASI, SchoolMax) to identify, code, and count displaced students within the district. Neither LEAs nor individual schools in the district conducted a physical count of displaced students at each location.
- Dekalb was the only LEA of the three reviewed to require¹³ supporting documentation be on file. The other two LEAs used only system data, edit checks, and edit reports as monitoring tools. According to Dekalb's Data Coordinator, based on the request for supporting documentation, the LEA identified some students who should not have been identified as hurricane displaced students.
- LEAs did not have an effective system for determining whether or not non-public schools were accredited. An official at one LEA stated that he was never asked to request paperwork with proof of accreditation from the schools. Instead, non-public schools were to contact the district if the school was not accredited. A staff person at another LEA said that she was not aware that the non-public schools were required to be accredited.
- All three LEAs reviewed either misidentified displaced students, double or triple counted students, or maintained inadequate supporting documentation on students included in the quarterly counts. Based on our sample testing at the three LEAs, GDOE received \$516,750 in actual EIA funds for ineligible students and misclassified SWD for whom inadequate supporting documentation was maintained. Inadequate controls over EIA program implementation and funding resulted in inaccurate displaced student counts and funding distribution in excess of entitlements, which could jeopardize both the integrity and the mission of the EIA program. As a result, GDOE may have received more than \$8.2 million in excess EIA funds for the three LEAs reviewed. The potential total questionable costs associated with Finding 1 are summarized in Table 7.

¹³ Dekalb established the requirement for maintenance of supporting documentation in response to our audit.

Table 7: Potential Total Questionable Costs

\$7,947,000	Estimated amount for no or inadequate supporting documentation for sampled students
\$208,125	Pre-K students identified
\$29,250	Duplicate students identified
\$24,000	Misidentified students identified
\$742	Disbursement to unaccredited school
\$8,209,117	TOTAL

RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require GDOE and/or its LEAs to

- 1.1 Provide support or repay the \$7,947,000 in projected questionable EIA funds relating to the inadequate supporting documentation for displaced students.
- 1.2 Provide support or repay the \$208,125 in questionable EIA funds relating to Pre-K students included in student counts.
- 1.3 Provide support or repay the \$29,250 in questionable EIA funds relating to the duplicate counting of displaced students.
- 1.4 Provide support or repay the \$24,000 in questionable EIA funds relating to students misidentified as displaced.
- 1.5 Provide support or repay the \$742 in questionable EIA funds relating to the disbursement to a non-public school that was not accredited.
- 1.6 Review their final lists of displaced students for all four quarters and report necessary adjustments to GDOE and the Department. Return any ineligible funds identified as a result of student count adjustments, if applicable.

GDOE Comments

In its comments to the draft report, GDOE did not state whether it concurred or not with the findings. GDOE did not concur with Recommendation 1.1 to repay \$7.9 million as determined by the OIG. Specifically, GDOE disagrees with OIG's method of projecting questionable EIA funds based on a small sample. In the response, GDOE states that it performed a one hundred percent verification of rosters using the official FTE data collections, which are the legal basis for funding in Georgia, for October 2005 and March 2006. According to GDOE's response, after the OIG determined that it would audit Gwinnett, Dekalb, and Cobb counties, and as part of its fiscal oversight responsibility, GDOE hired auditors to audit the remaining school systems that received emergency impact aid.

GDOE contends that OIG's recommendation to repay funds is wholly unrealistic given the fluid and dynamic nature of these catastrophic events and that further complications existed through the lack of timely and complete guidance at the time students were enrolled into Georgia's schools.

In contrast, GDOE agrees with the remaining recommendations – 1.2 through 1.6 – and stated it has taken action to address each. Specifically, GDOE's response states

- Pre-K students should not have been included by the three LEAs and that the LEAs have been informed that these funds should be returned.
- Duplicate counting of displaced students took place at two of the LEAs and that GDOE has informed the LEAs that these funds should be returned.
- Students were misidentified as displaced by two of the LEAs and that GDOE has informed the LEAs that these funds should be returned.
- Funds should not have been distributed to non-accredited private schools and that in the specific instance where this occurred, GDOE took appropriate actions to ensure that these funds were recovered through the last payment to the LEA.
- Discrepancies found by the OIG were forwarded to the respective LEAs and the LEAs were asked to provide information to refute the alleged discrepancies.

OIG Comments

GDOE's response did not provide any information requiring changes to the report findings and recommendations. Although GDOE did not concur with Recommendation 1.1, as stated in the body of the finding, GDOE's monitoring efforts identified deficiencies similar to ours at the remaining LEAs in the state amounting to nearly \$1.1 million. GDOE did not audit the three LEAs covered in our review – Dekalb, Cobb, and Gwinnett. The three LEAs reviewed had the highest concentration of displaced students in Georgia – over 40 percent of the total number of displaced students in the state. We found deficiencies at these three LEAs totaling over \$516,000 for a statistical sample of students. The high concentration of displaced students at the three LEAs presented an environment, with higher probabilities of error when compared to the lower concentration of displaced students arriving at each of the 114 LEAs reviewed. As such, it is not unreasonable that we projected over \$7.9 million in questioned costs when compared to the \$1.1 million GDOE identified through its audit of 114 LEAs. If GDOE rejects a statistical projection, it could conduct a 100 percent audit of the displaced student counts at the three LEAs reviewed for all four quarters, and return all EIA funds inappropriately paid to LEAs as a result of inadequate supporting documentation. Such action would sufficiently address Recommendation 1.1.

Finding No. 2 – LEAs Commingled EIA Funds and Did Not Track Expenditures

We found that all three of the LEAs reviewed applied the EIA funds to the general ledger for public schools. As a result of the commingled funds, we could not validate that the expenditures associated with the EIA program were only used within the cost categories allowed with the terms of the grant and applicable laws and regulations.

For each of the three selected LEAs, we obtained supporting documentation that all EIA funds were posted to the general ledgers and not in separate accounts to track expenditures. In addition, we found no documentation that the LEAs separated EIA funds received for SWDs from Non-SWDs. The Interim Chief Financial Officer (DeKalb), Assistant Director for Budget and Financial Reporting (Gwinnett), and Internal Auditor (Cobb) confirmed that funds received for SWDs and Non-SWDs were not placed in separate accounts or tracked separately from General Ledger funds. As a result, we could not audit EIA program expenditures.

According to the Department's guidance in Volume II of *Frequently Asked Questions - EIA for Displaced Students*, the accounting requirements for SEAs and LEAs are as follows

All SEAs and LEAs should establish separate fund codes or other processes for tracking their Emergency Impact Aid grants in order to allow for appropriate accountability for these funds. If these funds are not kept in separate accounts at the SEA and LEA levels, it may be difficult to document that they have been obligated and liquidated by the statutory deadlines.

Emergency Impact Aid funds provided for displaced students reported as having disabilities must be recorded and tracked separately from Emergency Impact Aid funds provided for non-disabled students.

Volume I of the Department's guidance also states that, in general, all LEA recipients of Emergency Impact Aid must maintain adequate written records to support the amount of payments that are received and the allowable expenditures that are made under the program for this fiscal year. At a minimum, recipients must keep auditable records documenting the enrollments of the displaced children who they claimed as the basis for receiving payments and evidence that the children claimed met the definition of a displaced student. On request, any recipient must make its records available to the Department for the purpose of examination or audit.

However, GDOE's guidance for the EIA program states

Upon receipt of the funds from the GDOE, the district should record the funds in the General Fund using revenue source 4821, program code 1799. The funds will be accounted for within the General Fund similar to regular Impact Aid Funds (CFDA 84.041). GDOE will use expenditures per pupil to ensure that districts have spent the funds. There is no requirement to record

expenditures associated with these funds, except for the amounts received for the non-public schools.

GDOE's Director of Financial Review stated that GDOE used each LEA's cost per pupil calculation to support EIA expenditures; EIA expenditures were not broken out by accounting codes; and EIA funds for SWDs were not tracked separately. The Deputy Superintendent for Business Operations said that the issue of commingling funds was discussed with Department staff. According to the Department's Director for the Impact Aid Program, the state education agencies (SEAs) were informed that LEAs were not required to maintain EIA funds separately or track them separately; and that posting EIA funds to the general ledger was permitted. However, the Director also stated that SEAs were instructed to keep the EIA funds for SWDs in Special Education accounts and use those funds the same way they would use other SWD funding.

The three LEAs reviewed received a total of \$1,768,125 in EIA funds for SWDs. According to officials and staff at the three LEAs, in general, EIA funds were used to support teacher's salaries, materials and supplies; and non-public schools used the funds for tuition reimbursement. However, because the funds were commingled, we were unable to validate the use of the funds. For the LEAs reviewed, we examined the FY 2006 cost per pupil calculations used by GDOE to support the use of EIA funds. For all three LEAs the calculations exceeded the total amount (\$6,000) of EIA funds a Non-SWD student would receive, if enrolled, for all four quarters. However, the cost per pupil allocation was less than the total amount (\$7,500) a SWD would receive, if enrolled, for all four quarters for two of the three LEAs reviewed. As a result, it appears that two of the three LEAs received a total of \$6,603 (\$3,073 – Gwinnett, \$3,530 – Cobb) in EIA funds in excess of GDOE's audited cost per pupil needed to educate the displaced SWDs. Beyond the discrepancy in the cost per pupil allocation, LEAs were required to maintain separate accounts for EIA funds related to SWDs. Because none of the three LEAs reviewed did so, we could not confirm that the remaining EIA funds related to SWDs were used in accordance with applicable laws and regulations.

GDOE developed guidance for the HERA programs; however, it did not follow the accounting requirements contained in the Department's guidance, establishing separate fund codes or other processes for tracking EIA expenditures. Further, GDOE's guidance did not require LEAs to separately, record and track EIA funds provided for SWDs from funds designated for Non-SWDs. Although the Department allowed SEAs and LEAs to commingle EIA funds with their general funds, this was inconsistent with the Department's guidance for maintaining adequate written records to support the payments received and the expenditures made. The use of EIA funds are restricted by the terms of the grant and applicable laws and regulations; and, therefore, these funds should have been accounted for separately. As a result of the commingling of funds, the Department has no assurances that EIA program expenditures were used as intended.

RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require GDOE and/or its LEAs to

- 2.1 Provide verification that GDOE’s calculated cost per pupil for Non-SWDs is supported by cost categories allowed under the terms of the grant and applicable laws and regulations.
- 2.2 Repay \$6,603 in EIA funds received in excess of the audited cost per pupil needed to educate a displaced SWD.
- 2.3 Provide documentation to support that the total EIA funds for SWDs were used for expenditures within cost categories allowed under the terms of the grant and applicable laws and regulations or repay the remaining \$1,761,522 in EIA funds received for SWDs in the 2005-2006 school year.

GDOE Comments

GDOE’s response does not state whether it concurs or not with the stated finding. In its response to Recommendation 2.1 in the draft report, GDOE agrees that verification is necessary and contends that only allowable cost categories were included in calculating per student expenditures. GDOE states that the cost categories used were from the school district’s General Fund and only included the following functions – 1000 Instruction, 2100 Pupil Services, 2210 Instructional Support, 2220 Media Services, 2400 School Administration, 2600 Maintenance and Operations, and 2700 Student Transportation.

GDOE stated that it disagrees with Recommendation 2.2 and that the Student with Disability (SWD) expenditures for the HERA were maintained as part of the school district’s SWD expenditures. GDOE stated that a calculation of the cost per SWD student for each district used only allowable expenditures and that the cost category included in the SWD per student calculation was only direct instructional expenditures associated with students with disabilities. GDOE included a chart (see chart below) in its response illustrating its calculations for determining per district allowable SWD expenditures. GDOE stated that the chart clearly shows that each district spent well in excess of the \$7,500 per student received.

DISTRICT	SWD EXPENDITURES	NET SWD HERA FUNDS RECEIVED	NET SWD EXPENDITURES	PER SWD EXPENDITURES
Cobb County	86,109,620	504,334	85,605,285	13,466
Dekalb County	83,412,185	648,584	82,763,601	15,971
Gwinnett County	99,226,875	555,636	98,671,238	12,947

GDOE stated that it used only the cost category of direct instructional (Function 1000) expenditures in the SWD per pupil calculation. GDOE stated that its response has shown that only allowable cost categories were included in the SWD cost per student calculations.

OIG Comments

GDOE's response did not provide any information requiring changes to the report findings and recommendations. Although GDOE states in its response that SWD expenditures for the HERA were maintained as part of the school district's SWD expenditures and that each district used only allowable expenditures, we are unable to validate this assertion because the LEAs commingled Non-SWD and SWD funds. After receiving GDOE's response to the draft report, we also obtained and evaluated additional information, which had not previously been provided, relating to GDOE's methodology for calculating its per SWD expenditures included in the chart for each of the three LEAs. We still could not verify GDOE's methodology or track EIA funds to ensure that they were used for the intended purposes without conducting an entire audit of each LEA's general fund, which is outside the scope of our review. The calculated per pupil cost used in the finding was the FY 2006 audited and published per pupil cost for all students in each of the three LEAs reviewed. Consequently, we maintain that EIA funds received were in excess of the audited cost per pupil needed to educate a displaced SWD at two of the LEAs reviewed.

OTHER MATTERS

GDOE Received Excess Homeless Youth Program Funds

The Department used the same student count data that the GDOE provided in its EIA applications to award Homeless Youth program funding. Based on the inaccurate and unsupported displaced student counts identified in Finding 1, GDOE received Homeless Youth program funds in excess of its entitlement. Because our work focused on only three LEAs, which had only drawn down approximately 4, 18, and 23 percent of its Homeless Youth program funds, we were unable to quantify the amount of excess funds GDOE received.

After adjusting for the identified errors in its displaced student counts, GDOE should identify the excess Homeless Youth program funds received and return the funds related to any overstatements in the initial displaced student counts reported to the Department.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We reviewed GDOE and three of its LEAs. Our review covered the administration of the EIA program and the Assistance for Homeless Youth program for the award period September 1, 2005 through September 30, 2006. The three LEAs selected for review were Dekalb County School System, Gwinnett County Public Schools, and Cobb County School District. We selected these LEAs because they had the highest quarterly displaced student counts, comprising between 40 and 43 percent of Georgia's initial total number of displaced students for each quarter.

To determine the policies, procedures, and controls over GDOE's and the LEAs' administration of the EIA Program, we obtained and reviewed laws, regulations, policies, and procedures; the methodology for allocating the funding; EIA guidance and clarification from Department staff; and GDOE's monitoring plan/efforts. We also interviewed staff and officials at GDOE and the three selected LEAs.

To evaluate the accuracy of GDOE's EIA allocations, we obtained and reviewed GDOE's EIA application, including GDOE's quarterly count dates; and the Department's records for the amount of EIA and Homeless Youth funding allocated to GDOE. We recalculated GDOE's allocation spreadsheets for each of the four quarters to verify the accuracy of the EIA funding distribution. We also reviewed the accuracy of GDOE's funding allocation to the three LEAs we reviewed.

To evaluate the accuracy of GDOE's counts submitted to the Department, we compared the displaced student totals GDOE submitted to the Department with GDOE's quarterly totals for Dekalb's, Gwinnett's, and Cobb's quarterly displaced student listings/rosters. We pulled two statistical random samples of displaced students for all four quarters of the 2005-2006 school year (samples included both public and non-public school students) for each of the three selected LEAs. During the four quarters, the GDOE received a total of \$22,991,250 in EIA funding for 15,098¹⁴ students included in the quarterly counts for Dekalb, Gwinnett, and Cobb school districts. To test GDOE's compliance with EIA funding regulations, we selected a random sample of 1,067 students totaling \$1,775,625 from the universe of displaced students at the three selected LEAs.

¹⁴ We removed Pre-K, duplicate, and misidentified students from the actual counts provided by the LEAs to arrive at a universe of 15,098 students.

We obtained and reviewed documentation supporting the students' displaced and SWD status. The documentation we reviewed included enrollment forms, student information forms, withdrawal forms, immunization records, transcripts and academic records from current and previous schools, Individualized Education Plans, and other source supporting documentation. Tables 1 through 4 display the populations and sample sizes. The sample results were projected to the populations of student names provided by the LEAs to determine the group total projected questionable dollars for the misidentification of displaced students. We provided LEA information to demonstrate the impact the sampling results of each LEA had on our total estimated amount for the three LEAs combined.

To validate that the LEAs posted the EIA funds to their general fund accounts, we compared GDOE's payment advice documentation with each LEA's account ledger summary listing the individual funds. Since the LEAs commingled EIA funds with their general funds, we could not test whether expenditures associated with the EIA program were only used within the cost categories allowed with the terms of the grant and applicable laws and regulations.

To evaluate GDOE's controls over the administration of the Assistance for Homeless Youth program, we obtained and reviewed GDOE's grant award notification, budget summaries, and payments for the three LEAs reviewed. We also interviewed GDOE personnel responsible for the administration of the Homeless Youth program and gathered and reviewed policies and procedures including GDOE's allocation of program funds, monitoring plans, and monitoring reports for the three LEAs reviewed.

We relied, in part, on the displaced student rosters provided by the three LEAs reviewed. To ensure the reliability of the data, we performed limited data testing. We validated that the student roster data were complete by testing the data to ensure that it substantiated the reported quarterly student counts. We also verified student names, identification numbers, enrollment and withdrawal dates, grade level, and disability designation information. To do this, we reviewed source documentation maintained by the LEA, including enrollment forms, withdrawal forms, academic transcripts, Individualized Education Plans, state drivers' licenses/identification cards, Social Security cards, birth certificates, utility bills, immunization records as well as other school related records. During our review, we determined that the student roster data were complete and sufficiently reliable to use as a universe for sampling displaced students.

We performed on-site audit work during various weeks from April 2006 through December 2006. We visited GDOE in Atlanta, Georgia; and the selected LEAs – Dekalb County School System, Decatur, GA; Gwinnett County Public Schools, Suwanee, GA; and Cobb County School District, Marietta, GA. An exit conference was held with GDOE officials on June 11, 2007. The audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent 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.

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
U.S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Avenue, 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 appreciated.

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 in the Act.

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please call me at 404-562-6477.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

September 14, 2007

Ms. Denise M. Wempe
U.S. Department of Education
Office of the Inspector General
61 Forsyth Street
Room 18T71
Atlanta, Georgia 30303

Control Number: ED-OIG/A04G0015

Dear Ms. Wempe:

Enclosed you will find the Georgia Department of Education's (GaDOE) response to the findings and recommendations presented in the *Audit of Georgia Department of Education's Emergency Impact Aid (EIA) Program Controls and Compliance* Draft Audit Report.

GENERAL OBJECTION

In response to the OIG's draft audit (ED-OIG A04G0015), the GaDOE wholeheartedly agrees with the OIG's background summary:

In 2005, Hurricanes Katrina and Rita had a devastating and unprecedented impact on students and teachers in Louisiana, Mississippi, Alabama, and Texas. Schools on the Gulf Coast suffered tremendous damage, requiring the temporary, or permanent closure of schools, depending on the extent of damage sustained. The hurricane's destruction forced students to enroll in the surviving schools outside of their home area. Hurricane Katrina alone displaced about 372,000 students, with over 10,000 [K-12] students displaced to Georgia.

However, I am disappointed and concerned with the draft audit's overall tone, its findings and recommendations.

As you know, in response to the devastation of Hurricanes Katrina and Rita, Secretary Spellings instructed all states to treat hurricane evacuees as homeless families under the McKinney-Vento Act for the 2005-2006 school year. Under McKinney-Vento public schools are required to enroll students experiencing homelessness immediately, even if the student is unable to provide documents that are typically required for enrollment. 42 U.S.C. §11432(g)(3)(C). Most of the impacted families that arrived in Georgia came with nothing more than the clothes on their backs.

To their credit, Georgia school systems opened their doors to over 11,000 hurricane students from Louisiana, Mississippi, Alabama, Florida, and Texas by late September without any promise or guarantee of funding to support these students from either the federal or state government. Consequently, districts relied solely on local tax dollars to support the increased

costs associated with supporting all these new unexpected students from September through the spring of 2006.

Based on US ED's advice and guidance, the state, school systems, and schools did the best job possible under the circumstances to gather and report accurate student information for the first and second quarter payments. Due to the frenzied implementation pace required by Congress, the Impact Aid Office openly acknowledged there was an increased probability for reporting errors. As a remedy, US ED allowed states to use the fourth and final count to make corrections for all four student counts. In response, Georgia required all districts to provide fourth quarter corrected information for all counts. Early in the process, the OIG's Office determined that it would audit Gwinnett County, DeKalb County, and Cobb Counties. As part of its fiscal oversight responsibility, GaDOE then hired auditors to audit the remaining school systems that received emergency impact aid.

Without waiving this objection, GaDOE responds as set forth below to the individual audit findings and recommendations.

FINDING No. 1 – Inaccurate or Unsupportable Displaced Student Counts

Recommendation 1.1

GaDOE does not agree with the recommendation to repay \$7.9 million as determined by the OIG. Specifically, we refute the OIG's method of *projecting* questionable EIA funds based on a small sample. In comparison, GaDOE performed a one hundred percent verification of rosters utilizing the official FTE data collections for October 2005 and March 2006. The FTE data collections are the legal basis for funding in Georgia. Most importantly, the OIG's recommendation is wholly unrealistic given the fluid and dynamic nature of these catastrophic events. Further complications existed through the lack of timely and complete guidance at the time the students were enrolled into Georgia's schools.

Recommendation 1.2

GaDOE agrees with the OIG recommendation that Pre-K students should not have been included by the three LEAs. The LEAs have been informed that these funds should be returned.

Recommendation 1.3

GaDOE agrees that duplicate counting of displaced students took place at two of the LEAs. In the specific instances where errors were identified the GaDOE has informed the LEAs that these funds should be returned.

Recommendation 1.4

GaDOE agrees that students were misidentified as displaced by two of the LEAs. In the specific instances where errors were identified, the GaDOE has informed the LEAs that these funds should be returned.

Recommendation 1.5

GaDOE does agree that the funds should not have been distributed to non accredited private schools. In the specific instance where this occurred, the GaDOE took appropriate actions to ensure that these funds were recovered through the last payment to the LEA.

Recommendation 1.6

GaDOE forwarded the discrepancies found by the OIG to the respective LEAs. The LEAs were asked to provide information to refute the alleged discrepancies.

Finding No. 2 - LEAs Commingled EIA Funds and Did Not Track Expenditures

Recommendation 2.1

GaDOE does agree that verification is necessary and contends that only allowable cost categories were included in calculating per student expenditures. The cost categories that were utilized were from the school district's General Fund and only included the following functions: 1000 Instruction, 2100 Pupil Services, 2210 Instructional Support, 2220 Media Services, 2400 School Administration, 2600 Maintenance and Operations, and 2700 Student Transportation. Thus, per pupil expenditures were calculated utilizing only allowable cost categories.

Recommendation 2.2

GaDOE disagrees with the recommendation. The Student with Disability (SWD) expenditures for the Hurricane Emergency Relief Act (HERA) were maintained as part of the school district's SWD expenditures. The GaDOE did calculate the cost per SWD student for each district utilizing only allowable expenditures. The cost category included in the SWD per student calculation was only direct instructional expenditures associated with students with disabilities. In addition, the GaDOE then subtracted the amount of SWD HERA revenue funds received (less the 2% administrative funds) to come to net SWD expenditures. This figure shows how much a school district spent eliminating any benefit received from SWD HERA funds. The following chart shows our calculations for determining per district allowable SWD expenditures; such expenditures to be compared against the per student SWD HERA funding of \$7,500. This shows that each district spent well in excess of the \$7,500 per student.

DISTRICT	SWD EXPENDITURES	NET SWD HERA FUNDS RECEIVED	NET SWD EXPENDITURES	PER SWD EXPENDITURES
Cobb County	86,109,620	504,334	85,605,285	13,466
DeKalb County	83,412,185	648,584	82,763,601	15,971
Gwinnett County	99,226,875	555,636	98,671,238	12,947

Recommendation 2.3

GaDOE utilized only the cost category of direct instructional (Function 1000) expenditures in the SWD per pupil calculation. As such, the GaDOE has shown that only allowable cost categories were included in the SWD cost per student calculations.

I am sure that you would agree that considering the enormity of this national disaster, school systems that took in hurricane students and accepted federal emergency funds deserve every consideration and due latitude as relates to documentation under these extraordinary circumstances.

We look forward to working with the OIG's Office to resolve this matter.

Sincerely,

/s/

Kathy Cox

KC:lm

cc: Scott Austensen