



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
KANSAS CITY OFFICE



8930 Ward Parkway, Suite 2401
Kansas City, Missouri 64114-3302

AUDIT SERVICES

FAX (816) 823-1398

Telephone (816) 268-0500

INVESTIGATION SERVICES

FAX (816) 268-0526

December 20, 2004

Dr. D. Kent King
Commissioner of Education
Missouri Department of Elementary
and Secondary Education
P.O. Box 480
Jefferson City, MO 65102

Dear Dr. King:

This final audit report, Control Number ED-OIG/A07E0018, presents the results of our audit of the Missouri Department of Elementary and Secondary Education's (DESE's) administration of provisions under Title I of the Elementary and Secondary Education Act of 1965 (ESEA) relating to consolidating funds in schoolwide programs. The objectives of our audit were to determine (i) if DESE has encouraged schools to consolidate funds from federal, state, and local sources in their schoolwide programs; (ii) if DESE has modified or eliminated state fiscal and accounting barriers so that schools can easily consolidate funds from federal, state, and local sources in their schoolwide programs; and (iii) whether schools are consolidating funds and their reasons for doing or not doing so.

We found that (i) DESE has not encouraged schoolwide programs to consolidate funds from federal, state, and local sources; (ii) there were no state fiscal or accounting barriers to consolidating funds in schoolwide programs; and (iii) several schools we reviewed were not consolidating funds.

We recommend that the Assistant Secretary for Elementary and Secondary Education require DESE to encourage local educational agencies (LEAs) and schools to consolidate funds by providing information to them about the potential benefits of consolidating funds, guidance on how to consolidate funds, and other measures DESE deems appropriate. We also recommend that DESE be required to amend its accounting and administrative manuals to encourage consolidating funds in schoolwide programs.

AUDIT RESULTS

DESE has not provided information to LEAs or schools on how to consolidate federal, state, and local funds or otherwise encouraged them to do so. DESE officials stated that they held a statewide conference and regional workshops at which they informed LEAs of their options regarding consolidating funds. They provided us documents that they had disseminated to LEAs at those meetings related to consolidating funds, but the documents only showed how the LEAs were to complete their annual applications to DESE. The applications contained an allocations report that would facilitate an LEA's reporting of transfers and consolidation of federal funds. However, the documents did not contain any information on how to consolidate federal, state, and local funds or encourage LEAs and schools to do so.

According to 34 C.F.R. 200.29(e), each State must (i) Encourage schools to consolidate funds from Federal, State, and local sources in their schoolwide programs; and (ii) Modify or eliminate State fiscal and accounting barriers so that schools can easily consolidate funds from Federal, State, and local sources in their schoolwide programs. (Regulations effective January 2, 2003)

Our visits to LEAs confirmed that DESE was not encouraging local officials to consolidate funds in their schoolwide programs. Officials of all seven LEAs we visited indicated that DESE had not given them sufficient information about consolidating funds. Officials of four of the seven LEAs said specifically that DESE had not given them any information on how to consolidate funds.

DESE's failure to encourage consolidating funds is further demonstrated in manuals it developed for use by LEAs. The DESE Accounting Manual gives no information on how to consolidate federal, state, and local funds in schoolwide programs, nor does it even refer to the consolidating funds provisions. DESE's Administrative Manual for the Consolidated Federal Programs also contains no guidance on consolidating federal, state, and local funds.

DESE officials stated that they had not provided more information to LEAs and schools about consolidating funds because the U.S. Department of Education (Department) had not provided written guidance on the topic.¹ They also indicated that they had not discussed consolidating funds more with LEAs and schools because of other priorities, such as adequate yearly progress and the option of transferring funds between ESEA programs.

¹ The Department offers guidance on consolidating funds in the form of questions and answers on its web site at http://www.ed.gov/legislation/ESEA/Title_I/swpguid1.html#fedfund.

DESE's failure to encourage LEAs and schools to consolidate funds may result in LEAs and schools not understanding the potential benefits of consolidating funds. As a result, schools may not be taking advantage of an option that could help them improve the academic achievements of all students, particularly the lowest-achieving students. If DESE were to encourage the consolidation of funds in schoolwide programs, the likely outcome may be that the LEAs we visited that were not consolidating funds, and others like them, would consider this option for flexibility in implementing and managing their schoolwide programs.

Several schoolwide programs we reviewed were not consolidating funds. In addition to the 7 LEAs we visited, we conducted telephone interviews with officials from 12 LEAs.² We determined that 15 LEAs did not consolidate funds and 4 LEAs did consolidate funds to some degree. We also asked LEAs for their reasons for consolidating funds or not doing so, since knowledge of these reasons might help DESE determine how best to encourage LEAs to consolidate funds.³

The reasons LEA officials gave for not consolidating funds are as follows:

- Four LEAs stated that it was easier not to consolidate funds;
- Four LEAs stated that they had enough money from Title I to do what they wanted to in their schoolwide programs;
- Three LEAs stated that they had no need to consolidate funds or saw no advantage to consolidating funds;
- Three LEAs stated that they had always kept funds separate and they just continued to do so;
- Three LEAs believed that it was necessary to keep funds separate because of audit requirements;⁴
- Two LEAs stated that accounting for funds separately by program made it easier to complete DESE reports; and
- One LEA stated that it had targeted programs that met specific needs and it wanted to make sure that the needs continued to be met.

The reasons LEA officials gave for consolidating funds are as follows:

- Two LEAs stated that consolidating funds made it easier to accomplish the goals of their schoolwide programs;

² Out of Missouri's 524 LEAs, 136 ran schoolwide programs in school year 2003-04.

³ Because some LEAs gave more than one reason for how they were accounting for their schoolwide funds, the total number of reasons in each of the following two categories does not equal the total number of LEAs in each category.

⁴ The LEAs' Independent Auditors stated they had not instructed the LEAs to keep funds separate.

- Two LEAs stated that consolidating funds made accounting for funds easier because they do not have to track funds separately in their schoolwide programs; and
- One LEA stated that consolidating funds made it easier to complete DESE reports.

There are some parallels between the reasons LEAs gave for not consolidating funds and the reasons other LEAs gave for doing so. That is, some of the reasons for consolidating funds responded to, or addressed, reasons given for not consolidating funds.

Testimonials at conferences and workshops by LEAs that consolidated funds in their schoolwide programs might be an effective way to encourage other LEAs to follow suit.

Also, LEAs may not always provide information about consolidating funds to their schools. The federal programs director of an LEA we visited stated that it would be up to each school to decide to consolidate funds. However, officials from the two schools we interviewed at that LEA said that they had no knowledge that consolidating funds was an option open to them. If DESE took steps to ensure that school officials, as well as LEA officials, were informed about the potential benefits of consolidating funds, the decisions about whether or not to take advantage of the option could be made in consideration of the insights of those closest to the ultimate beneficiaries of schoolwide programs, the students.

RECOMMENDATIONS:

We recommend that the Assistant Secretary for Elementary and Secondary Education require DESE to

1. Provide specific encouragement to LEAs and schools to consolidate federal, state, and local funds in schoolwide programs, including providing
 - a. Information about the potential benefits of consolidating funds through such means as conferences, written and telephone communications, and site visits; and
 - b. Guidance on how to consolidate funds; and
2. Amend the DESE Accounting Manual and Administrative Manual for the Consolidated Federal Programs to encourage consolidating funds in schoolwide programs.

AUDITEE COMMENT AND OIG RESPONSE

In its response to our draft audit report (full text enclosed), DESE was noncommittal about most of our recommendations. DESE agreed that it had not encouraged consolidating funds in schoolwide programs. It also stated its belief that consolidating funds is a local control issue and should be done at the LEA's and school's discretion. It

added that it would include some guidance on consolidating funds in its Administrative Manual for Consolidated Federal Programs.

We have not changed our position as a result of DESE's comments. While the decision of whether or not to consolidate funds is up to the individual LEA and school, federal law and regulations require the state to encourage consolidating funds in schoolwide programs.

BACKGROUND

The Elementary and Secondary Education Act of 1965, as amended, authorizes schoolwide programs to use funds under Title I, Part A, along with other federal, state and local funds, to upgrade the entire educational program in a school in order to improve the academic achievement of all students, particularly the lowest-achieving students. This is in contrast to targeted assistance programs, in which program funds may be used only for supplementary educational services for eligible children identified as being most at risk of not meeting state standards.

A school operating a schoolwide program is not required to identify particular students as eligible to participate in the program, or demonstrate that the services provided with Title I, Part A funds are supplemental to services that would otherwise be provided. The school is also not required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds, but must maintain records that demonstrate that the schoolwide program addresses the intent and purposes of each of the federal programs whose funds were consolidated to support the schoolwide program. In a notice the Department published in the Federal Register on July 2, 2004, it provided information on consolidating funds that included guidance on ways a schoolwide program can meet the intent and purposes of specific federal programs. (Federal Register/Vol. 69, No. 127, Page 40360/Notices) This document can be viewed via the following website:.

Congress, under the No Child Left Behind Act, effective January 8, 2002, stated that state educational agencies must encourage schools to consolidate funds from federal, state and local sources in their schoolwide programs, and must modify or eliminate state fiscal and accounting barriers so that these funds can easily be consolidated.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine

- If DESE has encouraged schools to consolidate funds from federal, state, and local sources in their schoolwide programs;
- If DESE has modified or eliminated state fiscal and accounting barriers so that schools can easily consolidate funds from federal, state, and local sources in their schoolwide programs; and

- Whether schools are consolidating funds and their reasons for doing or not doing so.

To accomplish our objectives, we

- Reviewed applicable federal and state law and regulations;
- Reviewed files relating to schoolwide projects at DESE and at the Department's Office of Elementary and Secondary Education;
- Interviewed Department, DESE, LEA, and school personnel, as well as Independent Public Accountants who had audited the LEAs we had visited;
- Reviewed the two most recent state single audits;
- Obtained and analyzed documents and records related to schoolwide programs at DESE and the LEAs, including organization charts and accounting policies and procedures; and
- Visited seven LEAs and seven schools.

We judgmentally selected 7 of the 136 LEAs that had schoolwide programs in order to visit LEAs receiving varying amounts of Title I funds for FY 2003-04, those that consolidated funds and those that did not, and those that were geographically located so as to minimize our travel expenses. We selected an additional 12 LEAs to interview by telephone based on the amount of Title I funds they received.

We visited the Department's Office of Elementary and Secondary Education program offices, located in Washington, D.C., from March 22 to March 24, 2004. We conducted fieldwork at DESE, in Jefferson City, Missouri, during the periods from April 19 to April 23, 2004, and June 1 to June 2, 2004, and at the LEAs during the period from April 21 to June 3, 2004. We conducted additional review and analyses of the materials we had obtained from June 10 through July 30, 2004, and held a final exit conference with a DESE official on August 20, 2004. Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

STATEMENT ON INTERNAL CONTROLS

We did not assess the adequacy of the internal control structure of DESE because such assessment was not necessary to achieve our audit objectives.

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 officials.

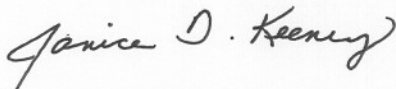
If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department official, who will consider them before taking final Departmental action on this audit:

Raymond Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Washington, DC 20202

It is the policy of the Department to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

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

Sincerely,


for Richard J. Dowd
Regional Inspector General
for Audit

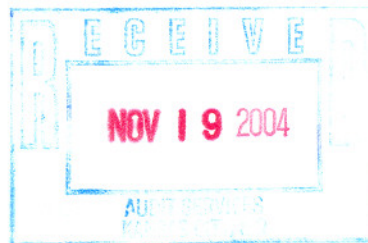
Enclosure



Missouri Department of Elementary and Secondary Education

– Making a positive difference through education and service –

November 10, 2004



Ms. Janice D. Keeney
Assistant Regional Inspector General for Audit
Office of Inspector General
U. S. Department of Education
8930 Ward Parkway, Suite 2401
Kansas City, MO 64114-3302

Dear Ms. Keeney:

The Missouri Department of Elementary and Secondary Education (DESE) has the following response to recommendations contained in the draft audit report received on October 8, 2004:

There are many federal mandates in the No Child Left Behind Act. Consolidating federal program funds in schoolwide programs is not a mandate; therefore, DESE believes that this is a local control issue and should be done at the district's and building's discretion. Although DESE has not encouraged or discouraged consolidating funds in schoolwide programs, DESE has not created barriers that would prohibit schools from consolidating funds in their schoolwide programs.

DESE is in the process of revising its Administrative Manual for Consolidated Federal Programs and will include some guidance on consolidating funds in the schoolwide section.

Sincerely,

Handwritten signature of D. Kent King in black ink.
D. Kent King