

Statement of
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Before the
Subcommittee on Early Childhood, Youth and Families

Committee on Education and the Workforce
United States House of Representatives

Regarding
**Special Education Funds
Can Be Allocated More Equitably**

February 4, 1997

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to share the results of our 1994 audit report “ED Can Allocate Special Education Funds More Equitably,” which we will provide in its entirety for the record. Our report recommends changing the current use of child counts for allocating Federal funds to states under the Individuals with Disabilities Education Act (IDEA), Part B, Section 611 (hereafter referred to as “Special Education funds”) to a system which is based on objective data. We believe this proposed system is a fairer, simpler, and less burdensome method of allocating Special Educations funds.

We conducted this audit in order to make recommendations for the IDEA reauthorization, as part of our ongoing effort to fulfill the legislative mandate of the Inspector General Act to undertake activities designed to promote economy, efficiency and effectiveness in the administration of the Department of Education programs. Our report is relevant to consideration of H.R. 5, the IDEA Improvement Act of 1997. Among other things, that proposed legislation would amend the IDEA to allocate Special Education funds between states based on the objective data our audit recommends, namely, population weighted for poverty levels. However, our audit was not the basis for the numerical percentages assigned to these two factors in H.R. 5. My testimony today will summarize our audit results and recommendations.

BACKGROUND -- CURRENT LAW ALLOCATES SPECIAL EDUCATION FUNDS BASED ON CHILD COUNTS

In fiscal year 1994, the Department allocated \$2.149 billion of Special Education funds to the states under the IDEA. In fiscal year 1997, the Department allocated \$3.107 billion. The purpose of these Federal funds is to help assure that children ages 3 through 21 with disabilities have available to them a free appropriate public education, including special education and related services. Children with disabilities are defined as those who have been evaluated and determined to be eligible under one of the thirteen enumerated disability categories. Currently, the IDEA requires that ED base its allocation of Special Education funds to states on the total count of students receiving special education in each state who fall into one of the thirteen Federal disability categories.

AUDIT APPROACH

The purpose of our audit was to determine if the current process of allocating Special Education funds based on child counts was reasonable, equitable, and efficient. As part of our audit, we analyzed data on the allocation of Special Education funds contained in the Department of Education's 1992 Report to Congress on the Implementation of the Individuals with Disabilities Education Act. We reviewed a number of reports issued by other federal agencies, state associations, and research organizations and previous OIG audits concerning the current child count allocation system. We interviewed Federal, state, and local special education officials and spoke with representatives from ten national organizations which have an interest and expertise in special education.

INDICATIONS EXIST THAT CHILD COUNTS ARE UNRELIABLE AND RESULT IN INEQUITABLE ALLOCATION OF SPECIAL EDUCATION FUNDS

We found a number of indicators that the current child count method for allocating Special Education funds is unreliable. Our analysis of the Department's own data contained in its 1992 report on the IDEA reflected that states, including those which border one another, reported widely divergent counts in the proportions of children in each disability category, calling into question their reliability and the reliability of the total disabled child count. Our audit report contains several examples. Representatives from all ten of the independent organizations with whom we spoke corroborated our conclusion that the states differed significantly in the proportion of children they counted in the various disability categories.

A number of authoritative studies and reports support our basis for questioning the reliability of the special education child count process. The studies point to disparities and imprecision in the definitions of disabilities, diagnostic procedures and other pertinent factors. For example, a 1977 study, which according to the Department is still the most recent comprehensive study in this area, noted:

“To the extent that professionals cannot agree on definitions, diagnostic procedures, and the need for services, the population of children with handicapping disabilities who are in need of special education is not well defined. To the extent that the population is not well defined, it is indeterminant.”

Similarly, a 1991 study observed that large reported disparities between states as to the number of children with particular disabilities “leave little doubt that states are not interpreting or applying the federal taxonomy uniformly.” In March 1993, the National Council on Disability issued a

report stating that excessive referrals to special education are a direct result of imprecise eligibility definitions, nonexistent or ineffective evaluations, and untrained or undertrained school personnel. Further, based on the Department's March 1993 disability statistics report, we found that the count of special education students appears to be inconsistent with data on persons with work-related disabilities. In addition, two OIG audit reports issued in 1989 and 1992 disclosed inaccurate counts of disabled children and a lack of appropriate monitoring by state education agencies of local child counts.

Because of these indications that the child count is unreliable, we believe that the current allocation method results in an inequitable distribution of Special Education funds between states. In addition, the child count is also unnecessarily burdensome. Our interviews with state and local special education officials reflected that states generally do not use the special education disability categories for purposes other than Federal reporting. They also expressed concern that categorization unnecessarily stigmatizes children by classifying them into particular disability categories and segregating them into isolated programs.

Comments by one state official from Pennsylvania summed up the OIG's conclusions on the inadequacy of the child count allocation method:

“Allocating dollars to states on the basis of an annual child count ... acts as a bounty system, rather than support for good practice. We believe that students with disabilities would be better served by an allocation method that is based on more stable data, such as census, birth rates, or total student enrollment.”

OBJECTIVE DATA WOULD YIELD MORE RELIABLE AND EQUITABLE ALLOCATION OF SPECIAL EDUCATION FUNDS AND REDUCE ADMINISTRATIVE BURDEN

We believe that Special Education funds can be allocated in a fairer, simpler, and less burdensome manner, and accordingly, we recommended that the Department use objective data to allocate these funds to the states.

Most of the special education organizations we interviewed were open to an alternative funding allocation mechanism that would distribute Federal funds more efficiently and equitably and could result in more funds going directly to serve the students by reducing administrative burden. These organizations also expressed the view that if the Federal government instituted an allocation system based on objective data, states might follow the Federal lead, resulting in efficiencies. In fact, at the time of our audit, two states had already implemented funding mechanisms based on total student enrollment rather than a child count.

In looking at the question of what objective data would be appropriate, Department officials and studies indicated that poverty and low education attainment are common in states that rank high in cases of disability. The Director of the Department's Office of Special Education Programs told us that there is a strong correlation between poverty and the level of disabilities within a community. According to the Department's March 1993 disability statistics report referenced above, low educational attainment and low economic resources are common in

states that rank high in disabilities. The Department's 1992 Annual Report to Congress also states that there is a strong association between low-income status and the likelihood of having a disability.

In light of these data, OIG specifically recommended the use of two factors in the Special Education fund allocation: total population of persons aged 3 through 21 and poverty levels. We believe that this methodology would provide each state with a more reliable and equitable share of Special Education funds. Because this method uses objective data derived for other purposes, it eliminates any possible financial incentives for manipulating student counts, including retaining students in special education just to continue receiving special education funds. In addition, its simplicity eliminates most of the administrative costs associated with counting and categorizing the students, monitoring and auditing those counts, and maintaining records of those counts. It does not, however, relieve the states of their responsibility to ensure disabled children receive appropriate special education services. The Department and audit organizations will continue to monitor and audit whether states are providing the services mandated by law.

DEPARTMENT'S REACTION TO OIG AUDIT

The Department, in their response to our audit report, agreed that the overall issues raised in our report warranted further study as the Department considered options for the reauthorization of the IDEA. The Department concurred with our recommendation that any allocation formula must be based upon objective data, noting: "It has been suggested by some

commenters that consideration be given to a census-based formula, with some consideration also given to poverty, as one way in which to better address the needs of children in relatively poor states. We believe the objectivity and validity of using Census or other data need to be considered in the re-authorization process.” In its 1995 IDEA reauthorization bill, the Department included our recommendation for a funding formula allocation change to a system based on objective data.

This concludes my remarks. I will be happy to answer any questions you may have.