



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

February 5, 2013

Honorable Phil Bryant, Governor
Honorable Tate Reeves, Lieutenant Governor
Honorable Philip Gunn, Speaker of the House
Honorable Eugene Clarke, Chairman, Senate Appropriations Committee
Honorable Herb Frierson, Chairman, House Appropriations Committee
Honorable Gray Tollison, Chairman, Senate Education Committee
Honorable John Moore, Chairman, House Education Committee
Legislative Budget Office

Dear Gentlemen:

As required by Section 37-151-7(1)(g), Miss. Code Ann. (1972), the Office of the State Auditor (OSA) has reviewed the FY 2014 final estimate calculation of the Mississippi Adequate Education Program (MAEP). The State Board of Education submitted this estimate to the Legislative Budget Office for consideration in the 2013 Legislative Session. Each year OSA reviews the MAEP funding request to verify its accuracy and compliance as required by law.

Conclusion Regarding the MAEP FY 2014 Final Estimate and Related Recommendations

I cannot verify the overall reliability and validity of the MAEP request broken down by district. The final estimate of the independent CPA based on the data provided by the Mississippi Department of Education (MDE) is calculated correctly. Although I have several concerns about MDE data, the most significant are discussed below:

- (a) The bulk of the MAEP formula (\$1.9 billion) relies on the use of non-standardized average daily attendance (ADA) data from the school districts. Specifically, some school districts count ADA based on students being present only in the first few minutes of the day, while other districts require that students be present for up to 2/3 of the day in order to be included in average daily attendance counts. In those districts with lax attendance policies, administrators will have less incentive to focus on keeping students in class to learn. Districts with strong attendance policies could be penalized monetarily, in comparison to other districts, because they will not receive funding for those students who attend but leave school early in the day. **Until the state establishes and monitors a uniform student attendance policy for all districts, as recommended by OSA staff, the distribution of the funds to districts will not be truly equitable;** the result is an inadequate funding mechanism.

- (b) The at-risk student portion of the MAEP formula (\$80 million) relies on free lunch data upon which federal regulation places strong restrictions for audit procedures (federal regulations for school compliance were more stringent in the 1990s when the MAEP statutes were first enacted). Lack of oversight provides an incentive for schools to provide as many free lunches as possible in order to obtain more state funding; this could result in funding inequities among districts. **OSA staff recommends that, in lieu of free lunch data in the MAEP formula, in future the Legislature consider substitution of alternative statistics to represent poverty (and other at-risk factors that affect students' ability to learn) that are uniform and verifiable.** For instance, the Legislature could use a combination of data such as poverty rates from the Bureau of Labor Statistics and TANF and other federal and state data that require tests of means/income but that can also be audited.

Recap of MAEP Final Estimate Amounts

Senate Bill 2604, passed during the 2006 regular legislative session, changed the year-to-year calculation for funding MAEP. Under the amended law, the Base Student Cost (BSC) is only completely recalculated every four years. In all intervening years, a percentage of the prior year per pupil BSC is multiplied by the applicable annual inflation rate (as determined by the State Economist) and then further adjusted according to law to provide a total MAEP amount. The total final estimate for FY 2014 MAEP proposed by the MDE is \$2,348,328,511. This amount consists of:

- (1) an adjusted state-funded base cost of \$1,895,229,008;
- (2) Add-on Program costs of \$440,436,709 (consisting of \$253,049,428 for Special Education, \$46,605,610 for Vocational Education, \$42,242,366 for Gifted Education, \$66,884,494 for Transportation, and \$31,654,811 for Alternative Schools); and,
- (3) \$12,662,794 for miscellaneous "Other Programs" outlined in State statute.

The adjusted state-funded base cost of \$1,895,229,008 is calculated using:

- (1) an estimated average daily student attendance (ADA) of 461,797.46;
- (2) a Base Student Cost of \$5,103.99 based on an annual inflation rate of 2.17% provided by the State Economist and a 1.33% increase in retirement contributions; and,
- (3) \$80,314,499 to districts for at-risk students, a (\$545,740,962) deduction for required local contributions, and \$3,645,857 in additional funding necessary to meet a statutory minimum funding guarantee of 8% above the 2001-2002 state funding level.

Follow-up to the OSA Preliminary Estimate Review Dated 9/18/2012 and Related Recommendations

MDE's MAEP preliminary estimate, submitted to the Legislative Budget Committee in July 2012, had included an assumption that a 15% increase in gifted teacher units was needed to provide for Gifted Education Add-on Costs. Neither initial projections provided to OSA nor additional data requested and received by OSA during the preliminary review supported the increase. Subsequent to release of OSA's preliminary estimate letter and after listening to OSA concerns, MDE corrected its method of extracting data from the Miss. Student Information System (MSIS) and then devised a method of projections that was based on historical trend data from MSIS for each school district. After a review of MDE's revised projections for each district, OSA has determined that they can be accepted as a reasonable

estimate. **MDE's final projections now include a request for a 2% growth factor in gifted teacher units statewide (rather than 15%),** which is supported by a new MDE report that shows an average 2% increase in gifted students over a 3 year period.

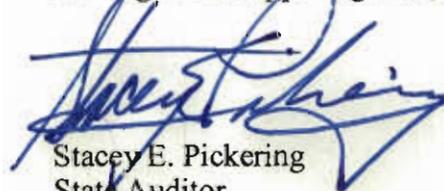
OSA had also noted in the preliminary review that for the past three years (FY 2012 to FY 2014 MAEP request), MDE had used 2009-10 teacher units and salaries in its estimates to calculate Vocational, Special, and Gifted Education program Add-on Costs. As proposed in our preliminary review letter, we evaluated additional teacher unit and salary information related to these estimates. OSA did not find that the use of old data had significantly affected the MAEP budget request. MDE has stated that in the coming year they do plan to verify more recent salary/teacher unit data and use it in the FY 2015 MAEP final estimate.

OSA strongly recommends that MDE verify on an ongoing basis and utilize the most current data for all elements of the MAEP estimates. OSA also recommends that MDE compile budget requests based on research, analysis, documentation, and presentation of fact-based evidence that projects the costs of meeting the actual needs of Mississippi students. The statutes currently allow for this method of calculation for the Base Student Cost in the year of full recalculation (representing state funding of \$1.9 billion), and the statutes allow this method to be used in all years for the Add-on Costs (\$440 million) and the miscellaneous "Other Programs" costs (\$12,662,794). **Basing projections on fact-based evidence of needs is more beneficial than the method now often used by MDE that consists of using previous expenditure amounts adjusted for inflation.**

Methodology and Use of the OSA Report

In conducting this review, OSA relied on the following: (1) our understanding of the agency and significant departments' operations; (2) our experience gained in previous audits of various segments of the Mississippi Department of Education; and (3) analytical reviews of detailed financial data. This report is for the use of the Legislature. However, it is a matter of public record.

Serving Mississippi Together,



Stacey E. Pickering
State Auditor

SEP/sa

cc: Dr. Lynn House, Interim Superintendent of Education
Todd Ivey, Bureau Manager of Policy and School Financial Services