



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

September 9, 2014

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 2016 preliminary estimate calculation of the Mississippi Adequate Education Program (MAEP). ***OSA finds the data entered into the MAEP formula are not reliable nor do the data support the requests for MAEP funding made on behalf of the State's school districts.*** I have several concerns about the Mississippi Department of Education (MDE) data, the most significant are discussed below:

- (a) The accuracy and reliability of the average daily attendance (ADA) data collected since the passing of House Bill 1530 are problematic. HB 1530, passed during the 2013 Regular Legislative Session, standardized ADA by requiring all students to be in attendance sixty-three percent (63%) of the school day in order to be counted present for funding purposes. Since its passage, OSA's MSIS (Mississippi Student Information System) auditors have observed school districts failing to comply with this law, which has resulted in continuing non-uniform ADA numbers from district-to-district. Therefore, OSA cannot validate the accuracy of the FY 2016 preliminary MAEP estimate because of the MAEP formula's heavy reliance on conceivably flawed ADA data. These non-standardized and sometimes inaccurate ADA data account for the bulk—\$1.96 billion—of the MAEP formula. Without proper implementation of Mississippi law, average daily attendance continues to be a **non-standardized data set**, which **negatively affects the equitability of MAEP funding**. ***OSA recommends that MDE meet with their approved MSIS software vendors to ensure that the vendors modify their software appropriately so that school districts can successfully implement the law.*** Because this is such a large part of the MAEP formula, OSA will begin audits of school district compliance with this law with the next cycle of audits.
- (b) The funding mechanism for the At-Risk student portion of the MAEP formula remains problematic. Current law does not guarantee that funds to address the needs of students, who are most at risk of failing or dropping out, are best distributed based on actual need. This portion of the formula—\$85 million—relies on free lunch program data, upon which federal regulation has placed tough audit restrictions. Validation and compliance requirements were more stringent in the 1990s when the MAEP statutes were first enacted. The recent addition of the new federal Community Eligibility Provision (CEP) program will allow 53 school districts and 506 individual schools in Mississippi to give free lunch to all (100%) students within the district regardless of a family's income level.

This *new* federal program will greatly inflate the At-Risk student portion of the funding formula, making it more difficult for the MAEP to be fully funded and not guaranteeing that at-risk students in all districts are getting equitable distribution or opportunities through funded At-Risk programs. The current MAEP law's

formula has no provision for this new 100% Free lunch program. Lack of MDE oversight of districts "At-Risk" programs and this new federal program that was designed to provide 100%, no questions asked, free lunch to some school districts and schools but not to others will result in At-Risk funding inequities among districts, unless the current MAEP law is modified.

To clarify, the MAEP formula arrives at the At-Risk student portion by taking 5% of the Base Student Cost (BSC), which is then multiplied by each district's reported free lunch participants. Students that would be considered "at-risk" who live in a non-CEP qualifying district would be at a disadvantage from students living in a qualifying district. Districts that qualify for the new federal CEP program would receive more funding because they will have inflated free lunch participants, even though other districts might actually have greater at-risk needs.

As OSA has pointed out to the Legislature and MDE previously, there are numerous other demographics that are more effective at predicting "At-Risk" funding needs, which would be auditable, accountable, and equitable and that have been tried and proven to work by other states. *OSA recommends, in lieu of free lunch data in the MAEP formula, the Legislature should consider substitution of alternative easily obtained demographic statistics to represent poverty (and other at-risk factors that affect students' ability to learn) that are uniform and verifiable.* The Legislature could, for example, simply require the State Board of Education to develop a formula that uses a combination of data such as poverty rates from the Bureau of Labor Statistics, Temporary Assistance for Needy Families, and other federal and State data that require tests of means/income but that can also be verified. *At the least, the Legislature should reevaluate §37-151-8, to identify districts that receive 100% free lunch through the CEP, and require those districts to use historical free lunch participants for the State MAEP calculation to keep the formula more equitable.*

- (c) Based on the data made available to OSA by MDE, OSA noted exceptions with the BSC calculated by the independent CPA firm, Tann Brown & Russ Co., PLLC for the preliminary estimate. *In comparing the data to the Mississippi Student Information System (MSIS) and information made available by MDE, OSA noted that the Total BSC multiplied by ADA and At-Risk student portion should be decreased by \$587,628 and \$179,159, respectively.* A chart showing a comparison between OSA and MDE's calculation is below. Additional information is available upon request that will delineate the amounts adjusted. OSA's adjusted FY 2016 MAEP Preliminary Estimate calculation totals \$2,465,654,188 and consists of a total MAEP cost (Before Add-On cost) of \$1,960,312,906, total Add-On program cost of \$489,343,367, and \$15,997,915 for miscellaneous programs not included in the other two categories as allowed by State statute.

**Recap of MAEP Preliminary 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, 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. For the FY 2016 budget, this calculation contains an annual inflation rate of 1.535%, as determined by the State Economist. The total preliminary estimate for FY 2016 MAEP proposed by the MDE is **\$2,466,356,110**. The MAEP Base Cost (before Add-on programs) **\$1,961,014,718**, is calculated below:

<b>CALCULATION OF MAEP BASE COST</b> <i>(Before Add-On Cost)</i>			
	MDE	OSA	<b>Difference</b>
Base Student Cost (BSC)	\$ 5,353.06	\$ 5,351.77	<b>\$ (1.29)</b>
*Estimated ADA X BSC:	\$ 2,438,467,002	\$ 2,437,879,372	<b>\$ (587,628)</b>
At-Risk Student Portion	\$ 85,399,621	\$ 85,220,462	<b>\$ (179,159)</b>
Deduction for Required Local Contributions	\$ (565,503,371)	\$ (565,444,786)	<b>\$ 58,585</b>

Additional Funding (to meet statutory minimum funding guarantee of 4% above the 2001-2002 funding)	\$ 2,651,468	\$ 2,657,858	\$ 6,390
<b>Total MAEP Cost (Before Add-On Cost)</b>	<b>\$ 1,961,014,718</b>	<b>\$ 1,960,312,906</b>	<b>\$ (701,812)</b>

MAEP PRELIMINARY ESTIMATED TOTAL			
	MDE	OSA	Difference
MAEP Base Cost, before Add-on Programs	\$ 1,961,014,718	\$ 1,960,312,906	\$ (701,812)
Add-on Program Costs of consisting :			
Special Education	\$ 287,003,086	\$ 287,003,086	\$ -
Vocational Education	\$ 52,734,545	\$ 52,734,545	\$ -
Gifted Education	\$ 47,768,726	\$ 47,768,726	\$ -
Transportation	\$ 70,118,585	\$ 70,118,585	\$ -
Alternative School	\$ 31,718,425	\$ 31,718,425	\$ -
Other Programs	\$ 15,998,025	\$ 15,997,915	\$ (110)
<b>Total MDE Preliminary MAEP Cost</b>	<b>\$ 2,466,356,110</b>	<b>\$ 2,465,654,188</b>	<b>\$ (701,922)</b>

\*Note: This calculation includes non-standardized data

**Conclusion Regarding the MAEP FY 2016 Preliminary Estimate**

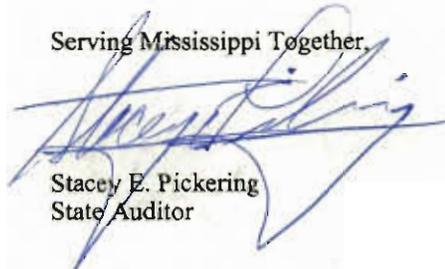
As this is a preliminary estimate, the final estimate will differ from this amount once actual expenditures are available and adjustments are made to the computations. In order for the MAEP formula to show an accurate picture of the needs of Mississippi's students, MDE should use accurate and reliable data, and should require and assist the school districts who have not complied with the ADA standardized attendance law to comply. The issues noted in this letter all utilize data that are not standardized across all districts and are not accurate. Also, the method to obtain the "At-Risk" student portion is outdated **OSA strongly recommends MDE verify and utilize the most current data for all elements of the MAEP estimates. OSA also recommends MDE compile budget requests, based on research, analysis, documentation, and presentation of fact-based evidence, that project the costs of meeting the actual needs of our public schools.**

**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; (3) analytical reviews of detailed financial data; and (4) thorough review of current and historical laws related to MAEP and their application in K-12 public education in Mississippi.

Should you have any questions or need additional information regarding the information provided in this letter, please do not hesitate to contact me.

Serving Mississippi Together.



Stacey E. Pickering  
 State Auditor

SEP/sa

cc: Dr. Carey Wright, Superintendent of Education  
 Todd Ivey, Chief Operating Officer, Mississippi Department of Education