



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

September 16, 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 2015 preliminary 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 2014 Legislative Session.

**Conclusions of the MAEP FY 2015 Preliminary Estimate and Related Recommendations:**

***Even though the formula may be calculated correctly, OSA finds the data entered into the MAEP formula is not reliable nor supports the requests for MAEP funding made by the State's school districts.*** I have several concerns about MDE data, the most significant are discussed below:

- (a) Average daily attendance (ADA) has been a big concern of OSA in the past years, but the passage of House Bill (HB) 1530 (2013 Regular Legislative Session) should alleviate this issue. House Bill 1530 tries to standardize ADA, by requiring all students to be in attendance sixty-three percent (63%) of the day in order to be counted present. This places an emphasis on the importance of a child actually being in school and ensures the uniformity, validity, and reliability of attendance data. The bulk of the MAEP formula (\$1.9 billion), for FY 2015, relies on the use of non-standardized ADA data from the school districts before the passing of HB 1530.

OSA believes it is critical to mention this issue as it relates to the overall MAEP formula for FY 2015; which raise doubts about the data reliability. ***Unfortunately, this new law will have no impact on the funding for the next four years because this year is a full recalculation and the next three are merely adjusted for inflation.*** To make this new law more effective sooner, OSA recommends the Legislature consider going back to a full recalculation each year. In the meantime, OSA will monitor districts' compliance with the law and the impact the change will have on the MAEP formula.

- (b) Another major ongoing concern of OSA, as mentioned in the FY 2014 letter, is the At-Risk student portion of the MAEP formula (\$80 million). This portion of the formula relies on the free lunch program data, upon which federal regulation places tough restrictions for audit purposes (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. In the future, **OSA recommends, in lieu of free lunch data in the MAEP formula, the Legislature should 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, TANF, and other federal and State data that require tests of means/income but that can also be audited.

- (c) Lastly, another concern, brought about this year, is MDE's use of Fund 2550 in the re-calculation of Base Student Cost (BSC) for the MAEP FY 2015 preliminary estimate. MS Code §37-151-7(b) does not allow this fund to be utilized as a part of the expenditures related to the re-calculation. However, please note, MDE has stated this fund was created for a one time pass through of federal funds for expenditures that are normally classified under Fund 1120, which this code section does allow to be included in the re-calculation. Additionally, Fund 2550 will **not** be utilized for the FY 2015 final estimate calculation.

**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, the Base Student Cost is only completely recalculated every four (4) 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 preliminary estimate for FY 2015 MAEP proposed by the MDE is **\$2,347,016,486**, which represent a complete re-calculation as required by law. The MAEP Base Cost (before Add-on programs) **\$1,872,186,717** is calculated using:

<b>CALCULATION OF MAEP BASE COST</b> <i>(Before Add-On Cost)</i>	
*Estimated ADA X BSC:	
<i>463,297.46 X \$5,054.97</i>	\$ 2,341,954,764
Districts for At-Risk Students	\$ 79,543,482
Deduction for Required Local Contributions	<b>\$ (553,449,417)</b>
Additional Funding (to meet statutory minimum funding guarantee of 8% above the 2001-2002 funding)	
	\$ 4,137,888
<b>Total MAEP Cost (Before Add-On Cost)</b>	<b>\$ 1,872,186,717</b>

*\*Note: This calculation includes a decimal rounding difference.*

<b>MAEP PRELIMINARY ESTIMATED TOTAL</b>	
MAEP Base Cost, before Add-on Programs	\$ 1,872,186,717
Add-on Program Costs of consisting :	
Special Education	\$ 265,626,216
Vocational Education	\$ 49,324,995
Gifted Education	\$ 42,808,342
Transportation	\$ 69,146,287
Alternative School	\$ 32,015,552
Miscellaneous Programs	\$ 15,908,377
<b>Total Preliminary MAEP Cost</b>	<b>\$ 2,347,016,486</b>

**Follow-up to the MAEP Preliminary Estimate Reviewed February 25, 2013**

OSA also noted in the preliminary review that for the past three (3) years (FY 2012 to FY 2014 MAEP request), MDE has used 2009-2010 teacher units and salaries in its estimates to calculate Vocational, Special, and Gifted Education program Add-On Costs. MDE has stated they do plan to verify salary/teacher unit data from the 2013 – 2014 school-term and use it in the FY 2015 MAEP final estimate. The estimated data submitted by MDE for the FY 2015 preliminary estimate still contained 2009-2010 teacher units and salaries to calculate Vocational, Special, and Gifted Education program add-on Costs. *Therefore, this change will not be verified until MDE submits the FY 2015 final estimate calculation.*

***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 Mississippi's students.*** Statutes allow for the use of current data to calculate the Base Student Cost in a full-recalculation year (representing state funding of \$1.9 billion). Further, State statutes allow current data 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 need is more beneficial than the method MDE currently utilizes which consists of outdated 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