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Basis For Approval Of
Federal Impact Aid Funds For
Adelanto School District, California

B-164031(1)

Office of Education
Department of Health, Education,
and Welfare

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

702012

095884

MAY 7, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(1)

The Honorable John V. Tunney
United States Senate

Dear Senator Tunney:

In accordance with your request of May 1, 1973, we reviewed the basis for the approval of Federal impact aid funds for the 1971-72 school year for the Adelanto School District, Adelanto, California, under section 3(e) of Public Law 874, approved September 30, 1950, as amended (20 U.S.C. 238(e)). The district received \$189,650 under this provision from the Office of Education (OE), Department of Health, Education, and Welfare. We made our review because of an inquiry you received from two concerned constituents. D-01490
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Under section 3(e) school districts may make claims for financial assistance to cover unavoidable costs associated with the enrollment of fewer federally connected children than planned and prepared for, because of a decrease in or cessation of Federal activities at nearby Government-owned installations or the failure of expected Federal activities to occur. Information furnished with your request indicated that the Adelanto School District had no basis for claiming financial assistance under section 3(e) to cover costs connected with a reduction in Federal activity at nearby George Air Force Base.

We reviewed Adelanto's claim for section 3(e) funds, the budget, and the actual preparations it made to provide educational services for school year 1971-72. We discussed these matters with OE, George Air Force Base, and district officials. We did not review the district's use of the funds received because the Federal law places no restrictions on how they may be used.

From our analysis, it appeared that the Adelanto School District received at least \$106,050 more than it should have under section 3(e) because the district could not adequately

justify this amount as being unavoidable costs associated with a decrease in average daily attendance of federally connected children in 1971-72 compared to the number for which preparations were actually made. We believe that OE should determine the actual amount which the district was overpaid and then take action to recover that amount.

PROVISIONS OF PUBLIC LAW 81-874

Under section 3 of Public Law 874, as amended (20 U.S.C. 238), school districts are compensated in reasonable amounts for the cost of educating children who (1) reside on tax-exempt Federal property with a parent who is employed on such property or is on active duty in the uniformed services--section 3(a) or (2) either reside on Federal property or reside with a parent employed on such property or on active duty in the uniformed services--section 3(b).

School districts must plan well in advance for the school year and must base their planning on estimates of the number of children to whom they expect to provide education. Frequently they must make year-long commitments for teachers and other personnel, or for equipment and supplies, on the basis of these estimates of anticipated attendance. These commitments often must be met even though later these estimates prove to be too high.

Federal payments under section 3 are based on the actual average daily attendance of federally connected children at the schools of the recipient school district during the particular year. Should the number of these children be considerably less than was reasonably anticipated by the school district, the Federal payments under section 3 would also be less even though the drop in attendance results in no decrease in the district's current expenditures.

Section 3(e), however, provides for increasing the Federal financial assistance to those school districts which experience attendance of fewer federally connected children than planned and prepared for, because of a decrease in or cessation of Federal activities or the failure of expected Federal activities to occur. In such a case, if the Commissioner of Education determines that the preparations were

reasonable at the time they were made, the school district may receive Federal funds under section 3(e) based on the amount which it would have received but for the unanticipated decrease in or cessation of Federal activities or the failure of expected Federal activities to occur. Payments under section 3(e) are to be offset by any reduction in current expenditures which school districts can reasonably effect because of the reduction in the number of federally connected children.

DISTRICT'S CLAIM FOR SECTION 3(e) FUNDS

The Adelanto School District consists of three elementary schools, two on George Air Force Base and one in the city of Adelanto. Federally connected enrollment consistently represents about 90 percent of total enrollment.

In a request for financial assistance under section 3(e) submitted to OE on September 26, 1972, the district superintendent said an unprecedented and unexpected decrease in on-base elementary students had created a critical financial situation. He also said the district's budget for school year 1971-72 included planned expenditures for an anticipated increase of children from 200 new housing units to be completed on George Air Force Base and occupied during the first part of the school year. In projecting the increase, the superintendent used a factor of 1.3 elementary school children for each housing unit based on average daily attendance of section 3(a) students in school year 1970-71.

The actual average daily attendance for school year 1971-72, however, was 465 less than anticipated as shown below.

<u>Type of student</u>	<u>Anticipated average daily attendance per 3(e) claim</u>	<u>Actual average daily attendance</u>	<u>Difference between anticipated and actual</u>
Section 3(a)	2,151	1,725	426
Section 3(b)	272	187	85
Nonfederally connected	<u>183</u>	<u>229</u>	<u>-46</u>
Total	<u>2,606</u>	<u>2,141</u>	<u>465</u>

The anticipated increase in average daily attendance failed to materialize due to several factors which significantly affected the ratio of children per family living on the base. Base officials told us that before school year 1971-72, the base had usually experienced a near 100-percent occupancy rate for onbase housing and had a waiting list of military families for the housing. During school year 1971-72, the demand for onbase housing units slackened somewhat due to (1) a moderate decrease in base strength, (2) the 200 housing units being completed and ready for occupancy starting in September 1971, and (3) a substantial increase in quarters allowance in November 1971. The last factor made it possible for many enlisted men and officers to obtain better quality housing in the surrounding communities outside the boundaries of the Adelanto School District.

To help maintain full use of the base housing, families of young airmen, who before that time were ineligible for base housing, were allowed to occupy the houses. In most cases, these were recently married couples with no school age children and, according to district and base officials, this was the main reason the anticipated increase in enrollment did not materialize.

DISTRICT'S PREPARATION
FOR SCHOOL YEAR 1971-72

Under section 3(e), payments are to be based on the school districts' actual preparations to provide educational services to more children than actually materialized. As previously mentioned, such preparations generally represent unavoidable expenditures or commitments made in advance of a school year, such as teacher contracts and equipment purchases. Although anticipated average daily attendance for school year 1971-72 was significantly higher than the average daily attendance of the prior year, the Adelanto School District did not make financial commitments to serve an increased number of students.

We reviewed Adelanto's budget for school year 1971-72. The district superintendent was unable to provide us with detailed support for the figures and dollar amounts used in computing the planned Public Law 874 income and related

expenditures. He said that the number of section 3(a) and 3(b) students used in the section 3(e) claim closely approximated the figures used in preparing the budget and that he estimated the number of students when the section 3(e) claim was submitted in September 1972.

We also reviewed the district's actual preparations for school year 1971-72. The superintendent said nearly all of the school district's budget is composed of firm commitments. He said that leases for portable classrooms and contracts for certificated personnel, including teachers and administrators, are the principal annual expenditures which require firm year-long commitments before the start of a school year. Although a higher average daily attendance was projected for 1971-72 over the prior year, the following comparison shows that (1) actual average daily attendance in 1971-72 was less than that of 1970-71, (2) the number of certificated personnel employed for 1971-72 was less than the number employed in 1970-71, and (3) the number of classrooms was the same in both years.

<u>Type of student</u>	<u>School year 1970-71</u>	<u>School year 1971-72</u>	<u>Difference</u>
Section 3(a) average daily attendance	1,890	1,725	165
Section 3(b) average daily attendance	270	187	83
Nonfederally connected average daily attendance	<u>239</u>	<u>229</u>	<u>10</u>
Total	<u>2,399</u>	<u>2,141</u>	<u>258</u>
Number of certificated teachers	^a 79	^a 75	4
Number of other certificated personnel	<u>7</u>	<u>7</u>	-
Total	<u>86</u>	<u>82</u>	<u>4</u>
Number of available classrooms	69	69	-

^aRepresents the average daily number of teachers on board during the school year.

The average daily attendance figures represent kindergarten through the eighth grade, although information on certificated personnel and available classrooms relate to kindergarten through the sixth grade. Students in seventh and eighth grades attend a junior high school outside the district. Adelanto pays tuition to the junior high school district for the cost of providing educational services to the children, on the basis of actual average daily attendance. The tuition charge is determined according to the California Education Code and the computation is based on funds received under Public Law 874 and tax revenues that the Adelanto School District receives.

The Adelanto School District Board minutes show that in April 1971 reemployment offers were made to 83 certificated personnel which included 76 teachers, 4 administrators, and 3 other employees. According to the superintendent, the district did not hire additional teachers at that time, although average daily attendance was expected to increase, because the area had a surplus of available teachers. He said that the district planned to hire any additional teachers needed after the school year began in conformity with the occupancy schedule of the newly completed onbase housing units.

District records show that one teacher, a speech therapist, was hired after the school year began to meet a student-teacher ratio for special speech classes required by California law. Also, four teachers resigned during the 1971-72 school year and the district did not replace them.

As shown in appendix I, Adelanto's 3(e) payment for school year 1971-72 was based on 511 children--the difference between projected and actual average daily attendance for section 3(a) and 3(b) students. This basis was improper, in our opinion, because Adelanto's preparations for school year 1971-72 were about the same as its preparations for the prior year.

In our view, the starting point for determining the 3(e) payment should have been the level of average daily attendance for which financial commitments had been made; that is, for the actual enrollment for the 1970-71 school year rather than for any planned increase in attendance. On that basis, the

decline in average daily attendance for school year 1971-72 would have been 248 students instead of 511 and Adelanto would have received about \$83,600 instead of \$189,650. However, section 3(e) states that payments are to be offset by reductions in current expenditures that school districts can effect because of a reduction in the number of federally connected children. Because the district was able to reduce expenditures in the school year 1971-72 by not hiring as many teachers as had been on board the prior year and by not replacing some teachers that resigned during the year, we believe the \$83,600 represents a maximum entitlement.

OE'S REVIEW OF DISTRICT'S CLAIM

Under section 3(e), the Commissioner of Education is to determine whether a school district has, in fact, prepared for education of a certain number of children. According to OE officials in the Department of Health, Education, and Welfare's San Francisco regional office, their review of the Adelanto School District's claim for section 3(e) funds consisted mainly of reviewing the basis used to estimate the average daily attendance of federally connected students for school year 1971-72. In their opinion, it was reasonable to assume that the average daily attendance of these students would increase because of the 200 new housing units built at the base. Therefore the district was granted funds totaling \$189,650 to compensate for the difference between anticipated and actual average daily attendance. The officials said, however, that they did not review the school year 1971-72 actual preparations to determine the extent, if any, that the district had actually made financial commitments because of the anticipated increase in attendance.

According to OE headquarters officials, some regional office personnel were misinterpreting OE operating instructions and were reviewing budget data instead of data concerning actual preparations that were made. They said that, because of our inquiries, the application form for section 3(e) claims was revised to require detailed information on the school districts' actual financial commitments. On October 2, 1973, OE clarified its operating instructions to its regional office personnel requiring that school districts'

actual preparations be verified before claims are recommended for approval.

CONCLUSIONS

Because the Adelanto School District's preparations for school year 1971-72 did not exceed those made for the prior year, even though a greater daily average attendance was projected in its budget, it received at least \$106,050 more than it should have under section 3(e) of Public Law 874. The overpayment occurred because OE did not review the district's actual financial preparations for school year 1971-72. However, OE has taken appropriate corrective action to help insure that future payments are consistent with section 3(e) provisions.

RECOMMENDATIONS TO THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE

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/ The Secretary of Health, Education, and Welfare should direct OE to determine the actual amount which the Adelanto School District was overpaid and take action to recover that amount.

Because OE may not have reviewed actual preparations relating to section 3(e) claims in the past, the Secretary should also direct OE to review other section 3(e) claims in recent years to determine whether other school districts may have received overpayments.

AGENCY AND DISTRICT COMMENTS

The Department of Health, Education, and Welfare concurred with our recommendations and stated it had taken or planned to take the following actions to implement them.
(See app. II.)

--OE requested program representatives in the Department's San Francisco regional office to reexamine the Adelanto School District's records pertinent to its section 3(e) claim for school year 1971-72. This action was prompted by information we had furnished OE during our review which indicated an overpayment of at least \$106,050.

The Department stated that, although it appears our findings are reasonable and justifiable, a final determination of the overpayment has not been made pending resolution of some minor differences between our information and that in the Department's regional office report.

--OE will issue a memorandum to program personnel in all the Department's regional offices requiring, at a minimum, that every section 3(e) claim submitted for school year 1971-72 be reexamined to determine if the claim was based on the district's actual preparations and financial commitments, rather than on budget projections or estimates of anticipated average daily attendance. When it is found that a claim was overstated and/or overpaid, necessary action will be taken to secure a corrected claim application and, in applicable cases, to recover amounts finally determined to have been overpaid. The memorandum also will give discretionary authority to regional office personnel to take similar action regarding section 3(e) claims for years before school year 1971-72 when circumstances appear to warrant such action.

The Adelanto School District disagreed with our conclusion that it received more funds than it was entitled to under its section 3(e) claim. However, in our opinion, the district provided no additional pertinent information in support of its position. Appendix III is our evaluation of the district's comments that were germane to the matters discussed in this report.

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As agreed with your office, we are sending copies of this report to the House and Senate Committees on Government Operations, the House and Senate Committees on Appropriations, Representative Jerry L. Pettis, the Secretary of Health,

cc: [unclear]

B-164031(1)

Education, and Welfare, and the Adelanto School District. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Axtell". The signature is written in dark ink and is positioned centrally below the typed name.

Comptroller General
of the United States

GAO's ESTIMATE OF
SECTION 3(e) OVERPAYMENT TO ADELANTO SCHOOL DISTRICT
FOR SCHOOL YEAR 1971-72
BASED ONLY ON CHANGES IN AVERAGE DAILY ATTENDANCE

AVERAGE DAILY ATTENDANCE

Federal student type	(1) Projected average daily attendance 1971-72	(2) Actual average daily attendance 1971-72	(3) Actual average daily attendance 1970-71	(4) Columns 1 and 2	(5) Columns 3 and 2	Overestimate columns 4 and 5
Section 3(a)	2,151	1,725	1,890	426	165	261
Section 3(b)	272	187	270	85	83	2
Total	<u>2,423</u>	<u>1,912</u>	<u>2,160</u>	<u>511</u>	<u>248</u>	<u>263</u>

ESTIMATED OVERPAYMENT

	Federal student type	Number of students	Payment rate for 1971-72 (note a)	Amounts (note b)
Amount paid to district by OE	3(a)	426	\$404.80	\$172,450
	3(b)	85	202.40	17,200
		<u>511</u>		
				\$189,650
Estimated amount district was entitled to--based on decrease in average daily attendance levels from 1970-71 to 1971-72	3(a)	165	404.80	66,800
	3(b)	83	202.40	16,800
		<u>248</u>		
				-83,600
Estimated amount	3(a)	261	404.80	105,650
	3(b)	2	202.40	400
		<u>263</u>		
				\$106,050

^aRates determined by California and approved by OE.

^bDue to rounding.

BEST DOCUMENT AVAILABLE

APPENDIX II



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

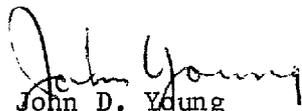
DEC 10 1973

Mr. Morton E. Henig
Associate Director
Manpower and Welfare Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Henig:

The Secretary has asked me to reply to your letter dated November 14, pertaining to the General Accounting Office draft report to Senator John V. Tunney entitled, "Basis for Approval of Federal Impact Aid Funds for the Adelanto School District, California" - B-164031(1). Detailed comments on the findings, together with statements of actions taken or to be taken, to implement the related recommendations, are set forth in the enclosure hereto. They are the product of review of your report by cognizant Departmental and Office of Education staff.

Sincerely yours,


John D. Young
Assistant Secretary, Comptroller

Enclosure

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
COMMENTS PERTINENT TO THE DRAFT REPORT TO
SENATOR JOHN V. TUNNEY BY THE COMPTROLLER GENERAL
OF THE UNITED STATES ON
"BASIS FOR APPROVAL OF FEDERAL IMPACT AID FUNDS FOR
THE ADELANTO SCHOOL DISTRICT, CALIFORNIA" - B-164031(1)

OFFICE OF EDUCATION (OE) REVIEW OF SCHOOL DISTRICT'S CLAIM

We recommend that the Secretary of Health, Education, and Welfare direct OE to determine the actual amount which the Adelanto School District was overpaid and then take action to recover that amount.

We concur in this recommendation.

Action to implement this recommendation was initiated by OE prior to our receipt of the General Accounting Office (GAO) draft report. The first phase of that action was a request, from cognizant OE headquarters officials to program representatives in the San Francisco Regional Office, for a reexamination of the school district's records pertinent to its claim, under section 3(e), Public Law 81-874, for \$189,650 for school year 1971-72.

That OE request for reexamination was prompted by information received, from GAO representatives, which indicated that the Adelanto School District had claimed and received at least \$106,050 more than its actual section 3(e) entitlement for school year 1971-72. The information received from GAO further indicated that the overpayment resulted from (1) erroneous calculation by the school district of its actual entitlement and (2) misinterpretation, by some Regional Office personnel, of OE operating instructions related to review and verification of claims submitted under section 3(e) of Public Law 81-874.

A report of the reexamination of the Adelanto School District claim in question has recently been received by OE from the Regional Office. According to OE officials, it appears that the findings contained in the GAO draft report are reasonable and justifiable. There are, however, some minor differences between those findings and the contents of the Regional Office report, e.g., the number of teachers in the school district who resigned during school year 1971-72. These discrepancies will be resolved promptly as a part of OE's continuing action to make a final determination of the amount to be recovered by reason of the overstatement and overpayment of the school district's section 3(e) claim for school year 1971-72.

APPENDIX II

As stated in the GAO draft report, OE, prior to our receipt of that report, took additional positive corrective actions designed to insure that future claims payments are consistent with the provisions of section 3(e) of Public Law 81-874. First, the application form used by school districts in submitting section 3(e) claims was revised to emphasize the requirement to furnish detailed information on actual financial commitments made, as opposed to budget projections or estimates of anticipated average daily attendance. Further, on October 2, 1973, OE clarified its operating instructions to its Regional Office personnel, stressing the necessity that actual preparations and financial commitments made by applicant school districts be verified before claims for section 3(e) funds are recommended for approval.

FURTHER RECOMMENDATION BY GAO

Because actual preparations relating to section 3(e) claims may not have been reviewed by OE in the past, we recommend also that the Secretary direct OE to review other section 3(e) claims in recent years to determine whether other school districts may have received more funds than they were entitled to.

We concur in this recommendation.

OE will issue a memorandum to the cognizant program personnel in all Regional Offices, requiring, at a minimum, that every section 3(e) claim submitted for school year 1971-72 be reexamined to determine whether or not the claim is based upon actual preparations and financial commitments made by the claimant school district, rather than budget projections or estimates of anticipated average daily attendance. In any case in which it is found that a claim has been overstated and/or overpaid, necessary action will be taken to secure a corrected claim application and, in applicable cases, to recover amounts finally determined to have been overpaid. The same memorandum will give discretionary authority to Regional Office personnel to take similar action with respect to section 3(e) claims for years prior to school year 1971-72 where circumstances appear to warrant such action.

GAO EVALUATION
OF
ADELANTO SCHOOL DISTRICT COMMENTS

The Adelanto School District superintendent responded to the matters in this report by letter dated December 13, 1973. He stated that the district disagreed with our findings and recommendations. Our evaluation of the superintendent's pertinent comments follow.

The superintendent, in commenting on our statement that the district could not adequately justify \$106,050 as unavoidable costs, said OE provided no specific guidance on the documentation necessary to support section 3(e) claims. In applying for section 3(e) funds, the district was only required to complete a one page OE application form which requested that applicants submit membership and average daily attendance information as substantiated in official documents. He claimed that school districts do not anticipate this type of dilemma and have not designed precise record and accounting systems for such an eventuality.

Although we recognize the superintendent's position regarding the lack of specific guidance, we believe that a determination of costs which had been unavoidably incurred could be developed from normally maintained budget, accounting, and other records. Such records would show what was planned, what actual commitments were made for, and what was actually done.

Our report states that the district's claim for section 3(e) funds by OE regional personnel consisted mainly of reviewing the basis used to estimate the average daily attendance of federally connected students. The actual preparations made for school year 1971-72 were not reviewed to determine the extent that the district had actually made financial commitments because of the anticipated increase in average daily attendance. However, OE has (1) revised the application form for section 3(e) claims to require detailed information on these commitments and (2) clarified its operating instructions to its regional personnel requiring that these preparations be verified before claims are recommended for approval.

APPENDIX III

The superintendent disagreed with our statement that the district did not make increased financial commitments to serve an increased number of students. However, he offered no evidence to support his position.

The superintendent stated that reductions in personnel, under California law, cannot be effected after March 15 of the preceding school year. However, this is only true for certificated personnel. As pointed out in the report, the district made no year-long commitments for the 1971-72 school year for these personnel over the prior school year.

The superintendent said classified personnel (employees other than certificated personnel) are under annual contract and they earn permanency status after 6 months. Classified personnel, in our opinion, do not meet the definition of year-long commitments under section 3(e) because, according to the California Education Code, such personnel, including those with permanency status, can be laid off during the school year due to lack of funds or lack of work. Therefore the district could have laid off any unneeded classified personnel as a result of the unanticipated decrease in attendance of federally connected children in 1971-72.

The superintendent said it is impossible to predict accurately Public Law 874 income because of certain variables and the district's section 3(e) claim adequately explains the basis for projecting the 3(a) student enrollment. In our report we do not question the accuracy of the budgeted dollar amounts, but merely state that the superintendent was unable to provide us with detailed support showing how he had derived the budget figures and dollar amounts. The district's section 3(e) claim does identify a basis for 3(a) student enrollment projections, but we cannot relate this estimate to Public Law 874 budgeted income and related expenditures because of the lack of documentation.

The superintendent said (1) we overlooked 11 offers of employment to certificated personnel which occurred after the April 1971 district board meeting and before the employment of the speech therapist referred to in the report and (2) only 3 teachers, not 4 as we stated, resigned during the 1971-72 school year; the other resignation occurred before the school year. He said the resignations were not anticipated or solicited and therefore should not be considered when measuring the district's planning and budgetary commitments.

District payroll records show that before the start of the 1971-72 school year, 11 teachers resigned and, according to the board minutes, 11 other teachers were offered positions with the district. Thus the hiring of these 11 teachers did not result in the district exceeding its 1970-71 certificated personnel level.

According to the district payroll and teacher contract records, four teachers resigned during the 1971-72 school year. The retroactive resignation the superintendent referred to was not included in our list of resignations for the 1971-72 school year but was included in the list of 11 teachers who resigned at the end of the 1970-71 school year. We do not agree that the resignations should not be considered because they were not anticipated; whatever the reason, they enabled the district to reduce expenditures. Section 3(e) claims are to be offset by any reductions in expenditures which school districts can reasonably effect.

The superintendent said supplemental offers of employment for classified personnel after the close of the 1970-71 school year generated additional contractual commitments. As previously stated, contracts for classified personnel cannot be considered as firm year-long commitments because they can be laid off during the school year if not needed. The only classified employees hired just before the 1971-72 school year were six part-time educational aides--who were contracted to work about 1 to 3 hours a day--and one full-time custodian. The remainder of the classified personnel the superintendent referred to in his letter either were hired for the summer session before the 1971-72 school year or were hired after it had started.