



PERFORMANCE AUDIT REPORT

K-12 Federal Education Funds: Evaluating the Costs and Benefits Associated with K-12 Federal Education Funding

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2016**

Legislative Division of Post Audit

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December 7, 2016

To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations from our completed performance audit, *K-12 Federal Education Funds: Evaluating the Costs and Benefits Associated with K-12 Federal Education Funding*. The audit was requested by Representative Ron Highland. We would be happy to discuss the findings or any other items presented in this report with any legislative committees, individual legislators, or other state officials.

Sincerely,

Scott Frank
Legislative Post Auditor

This audit was conducted by Heidi Zimmerman, Daniel McCarville, Josh Rueschhoff, and Josh Luthi. Justin Stowe was the audit manager. If you need any additional information about the audit's findings, please contact Heidi at the Division's offices.

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K-12 Federal Education Funds: Evaluating the Costs and Benefits Associated with K-12 Federal Education Funding

According to data compiled by the Kansas State Department of Education (KSDE), school districts received a total of \$6.3 billion in funding in school year 2015-16. Although the overwhelming majority of this funding was provided by the state (\$3.9 billion) or through local sources (\$1.9 billion), federal funds contributed \$507 million in funding for school districts and the state.

Accepting federal funds can bind the state and school districts to a variety of cost-sharing, administrative, or policy requirements. Legislators have expressed concerns about the requirements associated with accepting federal funds and expressed interest in knowing how the benefits compare to the costs.

This performance audit answers the following question:

1. What are the costs and obligations associated with K-12 federal education funds, and how do they compare to the benefits?

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in *Appendix A*. For reporting purposes, we combined the two questions originally included in the scope statement.

To answer this question, we reviewed state and federal documents related to various federal programs, interviewed KSDE and school district officials, and surveyed school district staff. After determining statewide federal K-12 funding levels, we collected detailed financial data from 10 school districts and KSDE to better understand how those entities spent their federal funds. These 10 districts were selected to provide a mix of districts based on location and demographic factors. Next, we reviewed federal documents and interviewed KSDE officials about the costs and obligations associated with receiving funds from six federal K-12 programs we evaluated. We chose six programs that represent a majority of the total federal K-12 education funding the state receives and that most school districts receive. To quantify the costs associated with the obligations we identified, we asked the 10 selected districts to provide detailed information regarding the amount of time various staff spent meeting those obligations. Finally, we conducted a survey of teachers and administrators in those 10 districts. Our survey included questions about the financial and time-related costs associated with accepting federal funding, as well as the benefits associated with that funding. We did not include a review of the school districts' or KSDE's internal

controls because such a review was not relevant to our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our findings begin on page 3.

Question 1: What are the Costs and Obligations Associated with Federal K-12 Education Funds, and How Do They Compare to the Benefits?

In terms of benefits, Kansas received about \$507 million in K-12 education funding from the federal government in school year 2015-16 (p. 3). The main purposes of the six federal K-12 programs we reviewed are to help disadvantaged students and to provide funds for additional school services (p. 5). These programs give districts significant discretion in how they spend federal K-12 funds (p. 7). The 10 districts we reviewed in detail spent most of these funds on staff compensation (p. 7).

In terms of costs and obligations, we found accepting federal funds can limit budget flexibility because of maintenance of effort requirements (p. 8). Additionally, by accepting federal funds, the state agrees to adopt the federal government's K-12 education initiatives (p. 10). Federal K-12 programs also impose some administrative requirements, but the cost of meeting these requirements is minimal and can be paid for with federal funds (p. 11). Finally, only the National School Lunch Program imposes operational costs on school districts through its increased nutritional standards (p. 13).

In comparing the benefits of accepting federal funds with the costs and obligations, we found the administrative and operational costs are small compared to the amount school districts receive (p. 14). In addition, school administrators overwhelmingly reported the costs associated with federal funding were worth the benefits (p. 15). However, we could not objectively quantify or compare the budget and policy restrictions that come with accepting federal funds to the benefits (p. 16). Finally, opting out of federal funding would result in increased state and local costs or reduced services for students (p. 16).

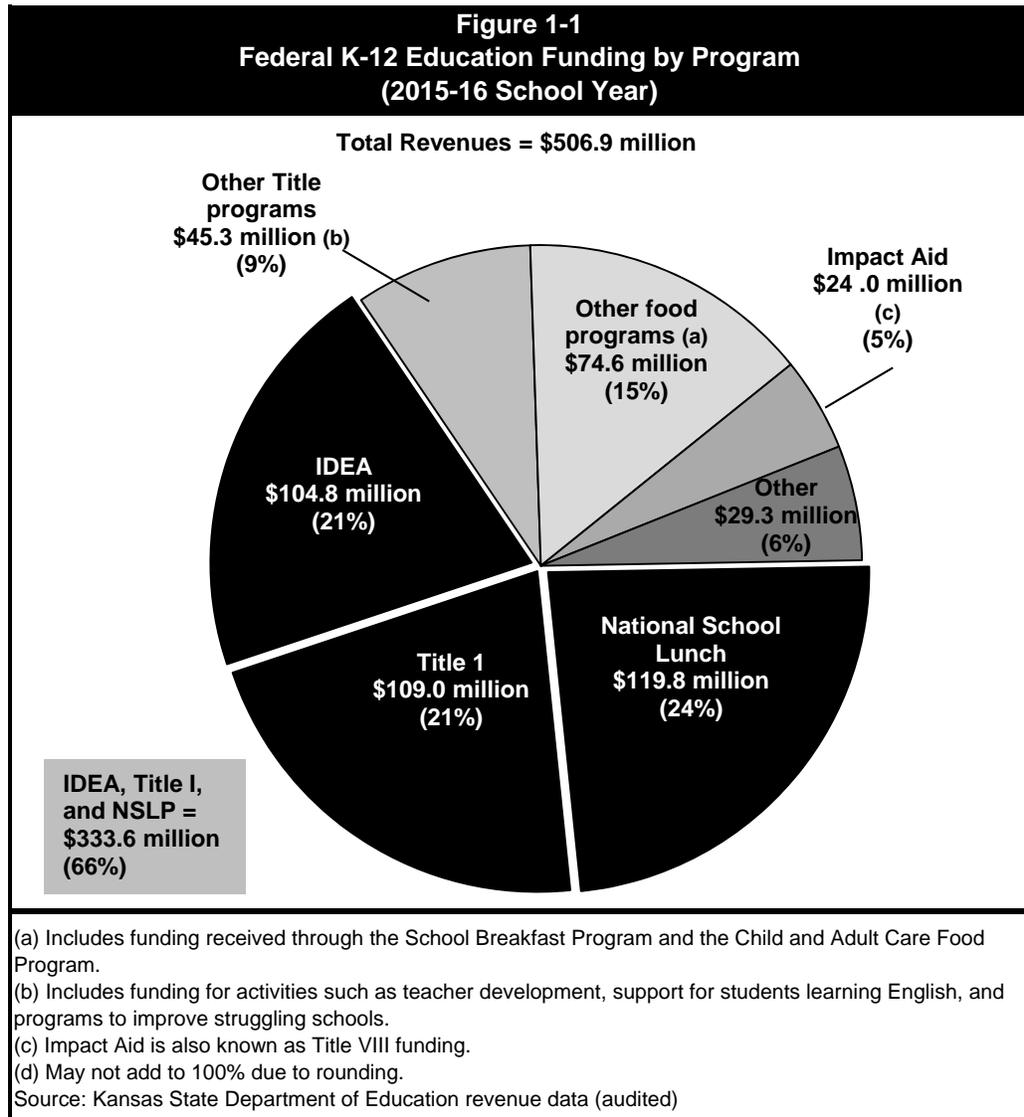
BENEFITS PROVIDED THROUGH FEDERAL K-12 EDUCATION FUNDS

Kansas Received About \$507 Million in K-12 Education Funding From the Federal Government in School Year 2015-2016

The Kansas State Department of Education (KSDE) and school districts received about \$507 million in federal education funding through at least 60 programs in school year 2015-16. This funding supports a variety of services including programs that address staff effectiveness, provide tutoring for students who are struggling academically, and offer free and reduced-price meals to children from low-income families.

Figure 1-1 on page 4 shows how much Kansas received from various federal K-12 education programs. As the figure shows, the three largest programs account for the majority (66%) of all the

federal funding. These include the National School Lunch Program, Individuals with Disabilities Education Act (IDEA), and Title I.



Nearly all of Kansas’ federal K-12 education funding is provided to school districts. In some cases, federal agencies provide funding to KSDE, which then passes those funds through to school districts. In other cases, federal agencies distribute the funds directly to school districts. Of the \$507 million KSDE and school districts received in 2015-16:

- **The state’s 286 school districts received about \$485 million, or 96% of the total federal K-12 education funding the state received.** The majority (69%) of the funding school districts receive is for three programs: school lunch programs (National School Lunch Program), special education (IDEA), and students from low-income homes (Title I). The total amount of federal funding that districts receive fluctuates slightly from year to year.

- **Federal funds accounted for just 8% of the total funding school districts received in school year 2015-16.** In that year, school districts received \$6.3 billion in total funding from federal, state, and local sources. Of that amount, districts received \$485 million from the federal government—a significant amount in absolute terms but a relatively small share of the total funding.
- **KSDE received the remaining \$22 million of federal K-12 funds to help administer statewide assessments and provide oversight and technical support to school districts.** Some of these funds came in the form of direct grants; others came as a portion of program funding that KSDE is allowed to retain for administrative purpose. About 25% of KSDE’s funding was spent on a contract with the University of Kansas Center for Research to help develop and administer state assessments.

Although we are confident the list of more than 60 federal programs we identified includes the major sources of federal funding, we cannot be certain we identified all federal funding programs. The state has two data sources that record the amount of federal education funding it received. One source includes all the funds KSDE received and passed through to school districts, but it does not include the funds the districts received directly from the federal government. The other source shows all school district revenues, but the information is grouped in such broad categories that we could not identify the specific federal sources. As a result, it is possible we did not identify all sources of federal funding for school districts, though we do not think we missed anything significant.

The Main Purpose of the Federal K-12 Programs We Reviewed Is to Help Disadvantaged Students and to Provide Funds for Additional District Services

The six federal K-12 programs we reviewed are meant to help disadvantaged students, improve staff effectiveness, or replace lost state and local revenue. To determine each program’s purpose, we reviewed federal documents and interviewed KSDE officials. Based on that work we found:

- **Four of the six programs provide funding to address the needs of at-risk students.** These include students in poverty (National School Lunch Program and Title I), English language learners (Title III), and special education students (IDEA).
- **Title II provides funding to increase the effectiveness of teachers and principals.** This program provides funds for teacher and principal training, as well as various incentives (such as merit pay) to improve teacher and principal quality.
- **Impact Aid replaces lost tax revenues for districts that include federal land.** Because federal property is not taxed, these districts do not receive any state or local property taxes from this property. This program is generally intended to replace these lost revenues. However, Impact Aid can also provide additional funding to districts

that experience significant increases in the number of students associated with a nearby military base.

We reviewed six federal K-12 programs that represent 76% of all identified federal funds received by KSDE and school districts. We identified approximately 60 federal programs that provide K-12 education funding to Kansas. We reviewed these programs to understand the primary purpose of each program and to determine how school districts can use the funds. We chose six programs that represent a majority of the total federal K-12 education funding the state receives and are typically received by most school districts. **Appendix B** provides a description of each program, how much funding they provided to school districts, and how many districts received that funding in the 2015-16 school year.

Although we think the six programs we selected sufficiently capture the costs and benefits of administering federal funds, it is still possible that the costs related to federal programs outside our sample differ significantly from the six we selected. The biggest risk is that we missed a program that is far more expensive to administer than those in our sample. This seems unlikely for two important reasons. First, the six programs we selected include some of the largest and most common federal programs—the types of programs that are most likely to have significant administrative requirements. Second, as part of this audit we surveyed or interviewed over 1,500 teachers, school administrators, state officials and federal officials, none of whom identified other federal programs with significant costs or benefits outside of the six we evaluated.

Federal K-12 education program requirements typically specify whether districts are to use the funds to provide additional services or to replace lost revenue. In many instances, federal K-12 programs specifically prohibit districts from using federal funds to replace state and local funds. For these programs, the federal funding is meant to add to the services the district already provides. In other instances, federal dollars are meant to replace state or local funding. For the six programs we evaluated:

- **Four of the six programs we reviewed—Title I (poverty), Title II (school effectiveness), Title III (English language learners), and IDEA (special education)—provide funds for additional services.** The three Title programs we reviewed and special education funding require funds to be used for supplemental purposes. For example, Title III funds must be used to provide additional support to English language learners beyond what the district already provides. The funds from the federal program cannot replace local funds to pay an existing teacher's salary, but could be used to pay for an additional teacher to become certified to teach English learners.

- **Two programs provide funds to replace lost state and local revenues.** Federal Impact Aid and funding through the National School Lunch Program are intended to help replace lost revenues. Generally, Impact Aid replaces revenue districts lose because their boundaries include federal land, which cannot be taxed. Additionally, most of the funding the school lunch program provides is meant to replace the revenue districts lose when they provide students in poverty with a free- or reduced-price lunch.

The Six Programs We Reviewed Give Districts Significant Discretion in How They Spend Federal K-12 Funds, and Districts Have Used Most of the Funds for Staff Compensation

We interviewed school district officials and analyzed expenditure data provided by each of the 10 districts to determine how they spent the federal funding they received in the 2015-16 school year. The 10 districts in our sample represent a reasonable cross section of districts statewide in terms of location, size, percentage of students who receive free lunch, and percentage of students who receive special education services. *Appendix C* lists these districts and the demographic data we considered when choosing them. Because we did not randomly choose these districts, our results are not statistically projectable. However, we feel the mix of districts in our sample is sufficient to allow us to draw conclusions about how districts spent their federal funds.

The federal K-12 programs we reviewed give districts considerable discretion in how they spend their federal funds.

Typically, districts must use federal funds to address the needs of the students or staff for which it was intended. However, the federal government provides districts with significant flexibility in determining what activities satisfy those requirements. For example, special education funding (IDEA) can be used for a range of expenditures such as paying for additional special education teachers or para-professionals, making payments to special education cooperatives, or purchasing assistive technology. Similarly, Title III funds can be used to pay for additional teachers, professional development for staff, or curriculum as long as those activities assist students learning English as a second language. Finally, because it is generally meant to replace lost revenue (rather than to assist a specific type of student or staff), Impact Aid can be used on any activity allowed by state law.

In the 2015-16 school year, the 10 school districts we reviewed spent most of their federal funding on staff compensation. The 10 districts we evaluated spent an estimated \$132 million across all K-12 federally funded programs in the 2015-16 school year.

- **Most (65%) federal K-12 funds were used to hire teachers and paraprofessionals.** For example, funding for special education students and for English language learners was frequently used to hire additional paraprofessionals to provide one-on-one or small group instruction.

- A much smaller share (18%) of districts' federal funds were spent on classroom and food program supplies.
- The remaining 17% was mostly spent on a variety of other items, such as training and special education cooperative payments.

COST AND OBLIGATIONS RELATED TO FEDERAL K-12 EDUCATION FUNDS

Accepting Federal Funds Can Limit Budget Flexibility Because of Maintenance-of-Effort Requirements

Five of the six federal K-12 education programs we evaluated impose a maintenance-of-effort requirement on the state or school districts (Impact Aid was the sole exception). Maintenance-of-effort is a form of cost sharing that requires the state or school districts to maintain a certain level of spending as a condition of receiving federal funding.

Accepting federal funds for the special education program (IDEA) imposes a significant maintenance-of-effort requirement on the state. To receive federal special education funding, the state must fund special education at the same or greater level than the prior year. In 2015-16, this required the state to provide \$442 million in special education funding (this was about 48% of total special education spending from all sources). If the state does not meet this maintenance-of-effort requirement, it risks a temporary reduction (up to five years) in the amount of federal special education funding it is eligible to receive in future years.

The National School Lunch Program has a much smaller maintenance-of-effort requirement for the state. For school year 2015-2016 this requirement was \$2.5 million—only about 1% of all food service expenditures and far less than the \$442 million required for special education. None of the other programs we reviewed have a maintenance-of-effort requirement for the state.

Accepting federal funds for the programs related to special education, students in poverty, English language learners, and teacher development also impose maintenance-of-effort obligations on school districts. The special education program also requires a district to budget as much on special education in the current year as it spent in the previous year to be eligible for federal funding. Further, if the district budgets the appropriate amount but does not spend that amount the federal government can penalize the district. The district can meet its spending requirement through either the district's total special education expenditures or its per-student expenditures, but cannot include expenditures made with federal funding. However, federal statute provides exceptions to the maintenance-of-effort requirement in certain circumstances,

such as decreasing special education enrollment or the completion of large projects which could lead to reduced special education expenditures.

Programs related to students in poverty, English language learners, and teacher development require districts to spend 90% of what they spent in the previous year to be eligible for federal funding. This may be met either by maintaining 90% of total, or per-student, general education expenditures. Expenditures related to capital outlay, property and equipment, and debt and bond payments cannot be used to meet this requirement.

In most years neither the state nor school districts has much difficulty meeting the maintenance-of-effort requirements, but these requirements can limit state and school district budget options. District officials told us they have no special spending strategies to assist with meeting their maintenance-of-effort obligations. Further, district officials told us they do not typically struggle to meet their maintenance-of-effort requirements. Similarly, the state typically has not had difficulties meeting its special education maintenance-of-effort requirement. One notable exception occurred in 2011, when the economic downturn and a decline in state revenues created significant state budget challenges. In that case, the state did not meet its maintenance-of-effort requirement and the federal government imposed a \$2.2 million penalty in 2012.

Accepting federal funds does not directly prohibit the state or school districts from altering their spending levels. However, by reducing future federal funding when the maintenance-of-effort requirements are not met, the federal government creates a clear penalty for states that reduce or alter their spending. This can limit budget flexibility in several ways:

- **Maintenance-of-effort requirements can make it difficult to reduce spending when revenues decrease.** For example, when state budgets are tight, the state's \$442 million special education contribution cannot be reduced without resulting in a temporary federal funding reduction (unless the state applies for a one-year waiver).
- **Any funding increase has a permanent effect, which may limit future funding options.** For example, if the state wanted to contribute more special education funding in a particular budget year, that higher amount would become the new maintenance-of-effort target. In subsequent years, the state could not decrease special education spending below the new target without risking a temporary loss of some federal funding.

- **The state's special education maintenance-of-effort obligation makes it difficult to redistribute funding responsibilities between the state and local districts.** This is because the state's compliance with the special education maintenance-of-effort is measured by the amount it spends in state sources on special education funding each year. If the state decides that local funding sources should cover a greater percentage of special education costs and then reduces its special education funding by a commensurate amount, the state risks a temporary loss of special education federal funding—even if total special education spending statewide remains the same.

By Accepting Federal Funds, the State Agrees to Adopt the Federal Government's K-12 Education Initiatives

Federal funds represent a relatively small, yet significant source of K-12 education funding for the state. Federal education funding represented only about 8% (\$485 million of about \$6.3 billion) of the total funding for schools in 2015-16. Although this is a relatively small share, it is still significant enough to make a difference to school districts and to the state. The state and districts have come to rely on these funds, but by accepting them must also abide by the policy restrictions that accompany them.

The federal government has tied federal funding to national education initiatives. Although states do not have to accept federal education funding, those that do must comply with federal priorities even if those are not the state's priorities.

- **In 2002, the Bush administration linked certain Title funding to the acceptance of the policies related to No Child Left Behind (NCLB).** These policies included annual testing in high school in reading and math and required all students who were tested to demonstrate proficiency by 2013-14. Further, schools were required to report testing results for both the student population as a whole, as well as by certain sub-groups such as English language learners, students in special education, and racial minorities. Schools where students did not meet the annual testing targets were subject to an increasingly serious set of sanctions.
- **In 2011, the Obama administration implemented a waiver program that exempted states from the NCLB requirements in exchange for a different set of education initiatives.** In 2010, it became apparent that many schools (nearly 40%) were failing to meet the annual testing targets and would not meet the final goal of having all tested students demonstrate proficiency in reading and math by the 2013-14 school year. To address this, the Obama administration offered to waive the NCLB requirements for states that agreed to different initiatives, including education standards aimed at preparing students for higher education and the workforce. To comply, most states chose to implement the controversial Common Core Standards. The waiver also required states to implement assessments aligned to those standards and to adopt new teacher evaluations that included student performance.

- **In 2015, Congress passed the Every Student Succeeds Act (ESSA) which relaxed some of the previous requirements but also implemented some new ones.** Under ESSA, states are still required to conduct annual testing in reading and math, and to report those results as a whole and by certain sub-groups. However, each state is now allowed to choose which indicators it wants to use to hold schools accountable for performance, although schools that do not meet those standards are still subject to penalties. States are still required to adopt a set of rigorous academic standards but they are free to choose the standards themselves.

Many of the requirements associated with ESSA have not yet been determined because most aspects of the law will not be fully implemented until the 2017-18 school year.

Failure to adopt these federal initiatives places a significant percentage of the state’s federal funding at risk. Although these initiatives are optional, if the state does not adopt the ESSA standards it will lose its eligibility for certain Title funding that represents almost 30% of all federal K-12 education funds. Consequently, to remain eligible for a significant portion of its federal funding, the state must adopt the federal government’s policies and priorities.

***Federal K-12 Programs
Impose Some
Administrative
Requirements, but the Cost
of Meeting Them is
Minimal and Can Be Paid
for with Federal Funds***

All six federal programs we reviewed required the state and school districts to provide administrative oversight of the funds they received. We determined how much it cost each of the 10 districts we selected to perform the administrative tasks associated with these six federal programs. We defined administrative costs as those costs related to monitoring and reporting information required to receive federal funding. For example, districts incur administrative costs when they compile and report the number of students who live on a military base, as required to receive Impact Aid.

In school year 2015-16, KSDE spent \$6.6 million to administer all federal education programs, all of which was paid for with federal funds. Five of the six federal programs we evaluated (Impact Aid was the sole exception) required KSDE to monitor or report information such as how districts spent their money and how many students were served. For each of those programs, the federal government allows KSDE to retain a portion of its federal funding to cover these administrative costs. For example, KSDE can retain up to \$175,000 (or 2.5%) of the state’s Title III funding for administration of that program.

We relied on KSDE officials to identify the costs associated with administering federal funding. Although we reviewed the data KSDE provided, we were unable to determine whether the

information provided was complete. However, we did verify that KSDE activities related to administering federal funds were paid for with federal funds.

District officials consistently reported that the time and cost associated with administering federally funded programs were minimal. We visited 10 districts and interviewed administrators and other staff to understand how much time they spend on activities directly related to administering federal funds. However, because many district officials found it difficult to separate the administrative time they spent on federal requirements from other administrative tasks, the cost of administering federal funds presented in this report are estimates and should be viewed as indicators rather than absolute fact.

Figure 1-2 shows the total administrative costs officials from our 10 sample districts reported to us for each program. As the figure shows, although total administrative costs varied significantly across programs—from about \$12,900 to nearly \$435,000—they consistently represented a very small portion of the total funding received. For example, administrative costs as a portion of funding received were only 0.1% for Impact Aid and 0.2% for Title I.

Figure 1-2
Total Estimated Costs for 10 Districts Compared to Dollars Received for Selected K-12 Federal Education Funds

Federal Programs in Our Sample	Costs			Total Federal \$ Received	Cost as % of \$ Received
	Administrative	Operational	Total		
School Lunch (a)	\$ 214,884	\$ 1,838,785	\$ 2,053,669	\$ 35,106,646	5.8%
IDEA (b)	\$ 434,724	\$ -	\$ 434,724	\$ 19,583,663	2.2%
Title III (c)	\$ 12,915	\$ -	\$ 12,915	\$ 983,682	1.3%
Title II (a)	\$ 41,970	\$ -	\$ 41,970	\$ 3,920,442	1.1%
Title I (a)	\$ 79,640	\$ -	\$ 79,640	\$ 37,739,521	0.2%
Impact Aid (d)	\$ 25,797	\$ -	\$ 25,797	\$ 22,622,015	0.1%
Total	\$ 809,929	\$ 1,838,785	\$ 2,648,714	\$ 119,955,968	2.2%

(a) All 10 districts in our selection received this funding in 2015-16.
 (b) Although all 10 districts in our sample are entitled to receive IDEA funding, five districts belong to special education cooperatives that receive those federal dollars on behalf of the district. As a result, the total reflects just five school districts.
 (c) Five districts in our selection received this funding in 2015-16.
 (d) Three districts in our selection received this funding in 2015-16.
 Source: Interviews with school district officials in 10 districts and audited revenue data provided by school districts and KSDE.

Although federal funds can be used to cover administrative costs, most districts we evaluated chose to absorb these costs instead. Five of the six programs we reviewed do not set a limit on how much of the federal funding can be used for administrative purposes. The exception was funding for English language

learners, which set a 2% cap on administrative costs. However, we found that most districts do not set aside any federal funding to cover the cost of administration. Instead, district officials told us that they spend as much of their federal funds as possible in the classroom and simply absorb the time required for administration. As a result, the administrative cost to districts is mostly in terms of staff time that could be spent on other activities.

The administrative tasks associated with meeting federal requirements for the six programs we evaluated fell almost entirely to school administrators and did not appear to significantly affect teachers. To address concerns we heard about regarding the impact on teachers' time, we evaluated how much time teachers spend meeting federal administrative requirements. School administrators told us teachers spend very little time on activities related to administering federal funding. However, to collect the teachers' perspective on administrative tasks, we sent surveys to nearly 1,700 teachers in our 10 selected districts asking them to report how they spend their time in a typical week. More than 1,000 teachers responded to our survey, for a cumulative response rate of 62%.

Responding teachers reported that they spend, on average, about one hour per week (or 2% of their total working time) on administrative tasks. This relatively small amount of time, and the fact that this time includes all administrative activities (i.e. those related to federal, state, or school district requirements), appears to support administrators assertion that teachers spend little to no time on federal program requirements.

Only the National School Lunch Program Imposes Operational Costs on School Districts Through its Increased Nutritional Standards

The National School Lunch Program imposes specific nutritional standards that may increase school districts' food supply costs. The U.S. Department of Agriculture reimburses school districts at a variable rate for every lunch the district serves. The rate ranges from \$0.36 for meals provided to students who do not qualify for free or reduced-price lunches to \$3.24 for students who qualify for free lunches. To qualify for this reimbursement, school districts must serve lunches that meet specific nutritional requirements. In 2012, the federal government made those nutritional standards more stringent by requiring districts to offer fresh fruits and vegetables, whole grains, and reduced fat and lower-sodium foods. To help districts cover the increased food costs associated with these requirements, the federal government offered an additional \$0.06 reimbursement for each meal.

Officials from the 10 districts we reviewed told us only a small portion of the cost of meeting the new federal nutritional requirements are covered by the \$0.06 reimbursement.

Overall, the 10 districts reported additional food costs totaling \$2.5 million for the 2015-16 school year. Of that amount, districts reported only about \$630,000 (26%) were covered by the additional \$0.06 federal reimbursement. Two districts did not report how much was covered by the federal reimbursement (one did not know and another reported its increased costs were covered by the new reimbursement).

However, it is difficult to conclude whether all food cost increases districts reported were a result of the federal nutritional standards for two reasons. First, this cost information was based on self-reported estimates provided by school district officials that we could not verify. Second, a variety of factors can result in increased food costs for school districts including general increases in food prices, vendor changes, or poor purchasing practices.

BENEFIT AND COST COMPARISON OF FEDERAL K-12 EDUCATION FUNDS

Administrative and Operational Costs Associated with Federal Funding Are Small Compared to the Amount School Districts Receive

As part of our comparison of the costs and benefits associated with federal K-12 education funds, we compared the administrative and operational costs federal programs created to the amount of federal funding each program provided. We did not include spending tied to maintenance-of-effort requirements as a cost in this analysis. That is because these expenditures are likely to be made regardless of whether the district receives federal funding. For example, existing federal and state legal requirements for special education services are the primary driver of special education expenditures, not the special education maintenance-of-effort requirement. Therefore, we did not consider this requirement as a cost associated with federal special education funds.

When compared to the amount of funding districts receive, administrative and operational costs represent a very small amount. **Figure 1-2** on page 12 shows the total operational and administrative costs incurred by the 10 districts we reviewed. As the figure shows, the \$2.6 million the 10 districts incurred for administrative and operational costs represented about only 2% of the nearly \$120 million they received through our six selected federal programs. Additionally, none of the costs associated with any of our six selected programs exceeded 6% of the amount districts received and two (Title I and Impact Aid) were less than 1%. Although other factors must be taken into account, from a solely financial perspective, it appears the financial benefits of federal funding clearly exceed the additional administrative and operational costs.

***School Administrators
Overwhelmingly
Reported the Costs
Associated with Federal
Funding Were Worth the
Benefits***

In addition to quantifying the administrative and operational costs of federal funding to districts, we also surveyed school administrators to get their opinions on various aspects of federal funding. We sent surveys to 538 administrators in our 10 sample districts and received 407 responses for a 76% response rate. Because our sample districts were not randomly selected, the survey results are not statistically projectable, but are sufficient to give insight into how administrators view federal funding.

School district administrators overwhelmingly reported the federal funding requirements were not burdensome and it was worth the costs to receive the funding. Survey respondents and school district officials we interviewed were in clear agreement regarding the burdens and benefits of federal funding.

- **28 of 30 school district officials we asked (93%) told us the requirements associated with federal funding were not burdensome.** Some officials told us that federal requirements were not burdensome because many were best practices that they would follow anyway. For example, tracking the progress of English language learners or creating school improvement plans (a school-by-school plan that identifies specific weaknesses and creates a plan for addressing those issues) are best practices districts would complete whether federal funding required it or not.

The two officials who reported they thought federal funding was burdensome had specific concerns about the reporting related to the National School Lunch Program or Medicaid.

- **Out of the 190 administrators who expressed a clear opinion on the value of federal funds, 97% told us receiving the funds was worth the associated administrative workload.** The remaining three percent were either unsure or thought federal funding was not worth the cost.

Although district administrators typically did not think federal requirements were burdensome, some mentioned that state requirements could be more streamlined. For example, a few administrators we interviewed suggested that submitting reports to KSDE would be easier if its many data collection systems were consolidated into a single system.

District officials also reported federal funding was significant in terms of district finances and benefits to students and were concerned that fewer resources could lead to reduced student achievement. Overall, 96% of the administrators who responded to our survey reported that federal funding was “significant” or “very significant” in terms of district finances and benefits to their students. Further, officials told us a reduction in services that provide extra support to students in poverty (such as tutoring, providing para-professional support in the classroom, and smaller

class sizes) likely would reduce those students' academic performance.

Additionally, officials in high poverty school districts reported that funding received through the National School Lunch Program is critical to being able to provide free meals to students from low income households. This is because lunch programs in these districts are largely funded by the federal government (as much as 90% in some districts). For these school districts, an inability to maintain a lunch program could lead to a significant portion of their student population going without a meal during the school day.

We Could Not Objectively Quantify or Compare the Budget and Policy Restrictions That Come with Accepting Federal Funds to the Benefits

As previously discussed in this report, accepting federal funds can limit the state's policy options in two ways. First, the funding for many federal programs include maintenance-of-effort requirements which can reduce the state's and school district's budget flexibility. Second, over the past couple of decades, the federal government has required states to align their education policies with federal initiatives as a condition of receiving some federal funds.

Both policy limitations are important factors to consider when comparing the obligations imposed by accepting federal funds to the benefits. However, there is no objective way to quantify the impact of these limitations. Some policy makers might consider them to be relatively minor, while others might find them overly restrictive. Consequently, we cannot objectively determine whether these policy restrictions outweigh the benefits of accepting the federal K-12 education funding.

Opting Out of Federal Funding Would Result in Increased State and Local Costs or Reduced Services for Students

In assessing the costs and benefits of receiving federal funding, we thought it made sense to evaluate how opting-out of some or all federal funding would affect the state and school districts. To do so, we interviewed nearly 60 school district officials, KSDE officials, and other stakeholders to understand the financial implications related to opting out of some or all federal education funds. Additionally, we reviewed state and federal law to determine which services districts are required to provide and how those services related to federal funding.

For Impact Aid and programs related to special education and English language learners, opting out of federal funding likely would result in increased state and local costs. We identified two reasons state or local costs likely would increase:

- **State and federal law require districts to provide English language services and special education services to qualifying students whether the district receives the associated federal funding or not.** The U.S. Supreme Court has determined that a free and appropriate public education is a civil right. Consequently, school districts must provide services that allow students with disabilities or English language learners the opportunity to fully participate in a public education.

If the state were to opt out of receiving these federal funds, school districts would still be responsible for providing the services. The state could provide additional funding equal to the amount the districts lost in federal funding (about \$109 million annually if it opted out of both sources of funding) or require districts to raise the additional funds so that these required services could still be provided.

- **State costs for districts that receive Impact Aid would also increase to cover lost federal funding.** In school year 2015-16 Impact Aid provided a total of \$24 million in funding to 24 school districts statewide. Districts can use those funds for any purpose allowed by state law. As a result, the state would have to replace that federal funding if it wanted to maintain those districts' current funding levels.

The state is clearly allowed to opt-out of federal funding for five of the six programs we evaluated, but the state's authority to opt-out of federal Impact Aid is unclear. This is because school districts directly apply for and receive Impact Aid from the federal government and it is unclear whether the state has the authority to prohibit school districts from directly seeking these funds.

For programs related to low-income students, staff training, and the National School Lunch Program, opting out of federal funding would result in either increased state and local costs or reduced service levels. The services and resources associated with these programs are not specifically required by either state or federal law. However, district officials overwhelmingly told us they would not be able to provide the same resources and services to students and teachers if federal funds were not available. If the state opted out of these types of federal funds, it would have the option of replacing the lost funding or requiring districts to raise the additional funds themselves. If funds were not replaced through some other source, many districts might not be able to provide the same level of services

Conclusion and Recommendations

Conclusion

Although federal funds accounted for less than 8% of the state’s total K-12 education funding in 2015-16, those funds have a disproportionate impact on K-12 education in the state. This is not the result of overly burdensome administrative requirements or other expensive mandates, which people frequently associate with federal funding. Rather, it is the result of how accepting federal funds limits the state’s policy options. As this audit demonstrates, these limits appear in two ways. The first way is through maintenance-of-effort requirements—in particular the requirements associated with special education—which require the state or school districts to spend a certain amount to continue their full federal funding. The second way that federal funds affect the state’s policy options is through the federal government’s strategic use of those funds to push national policy initiatives.

Whether the benefits of receiving federal funds outweigh the limits they place on policy options depends on one’s perspective. School district officials overwhelmingly told us the benefits are worth the costs and obligations that affect them. Ultimately, it is up to the state’s policymakers to determine whether those same benefits outweigh the limits on budget flexibility and policy obligations the acceptance of federal funds imposes on the state.

Recommendations

None

APPENDIX A Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on April 26, 2016. The audit was requested by Representative Ron Highland

K-12 Federal Education Funds: Evaluating the Costs and Benefits Associated with K-12 Federal Education Funding

According to school district expenditure information compiled by the Kansas State Department of Education (KSDE), K-12 school districts reported spending a total of \$6.1 billion in fiscal year 2015. Although the overwhelming majority of these expenditures are paid for with state (\$4.0 billion) or local (\$1.6 billion) sources of revenue, federal funds were also a significant source of revenues for school districts, accounting for more than \$510 million in expenditures.

Most federal funding for K-12 education comes from the U.S. Department of Education for such programs as special education (\$113 million in expenditures for fiscal year 2015), assistance to schools with significant poverty (\$103 million), and teacher quality improvement grants (\$18 million). The U.S. Department of Agriculture, which funds a variety of food programs, is another significant source of federal funding for K-12 schools (\$153 million).

While federal funding is a significant revenue source for K-12 education, accepting federal funds can also mean agreeing to a variety of cost-sharing, administrative, and policy requirements. Legislators have recently expressed concerns about the requirements associated with spending federal funds and how the benefits compare to the costs.

A performance audit in this area would address the following questions:

- 1. How much federal funding have the state and local school districts spent on K-12 education in recent years, and how have those funds been used?** To answer this question, we would review the state's Schedule of Expenditures of Federal Awards (SEFA), budget documents submitted to the Kansas State Department of Education (KSDE), and survey school districts to identify federal funding for K-12 education (including both direct awards to school district as well as funds that are administered by KSDE). For a sample of school districts, we would review KSDE and district records to determine how the federal funds were spent, including any amounts retained by KSDE or the district for administrative costs. Finally, we would work with school district, KSDE, and federal officials to understand any conditions that limit how the federal funds can be used. We would perform additional work in this area as necessary.

- 2. What are the costs and obligations associated with federal funds for K-12 education, and how do they compare to the benefits?** To answer this question, we would work with school district, KSDE, and federal officials to understand any funding, administrative, or policy requirements that are tied to federal funds for K-12 education. We would work with those officials to determine which of these costs can be paid for with federal funds. For a sample of school districts, we would work with district officials to estimate the time and resources required to meet the various federal requirements and the extent to which they have been paid for with federal funds. Based on the cumulative

information, we would compare the costs associated with these federal funds to the benefits identified in Question 1. We would perform additional work in this area as necessary.

Estimated Resources: 3 LPA staff

Estimated Time: 5 months (a)

(a) *From the audit start date to our best estimate of when it would be ready for the committee.*

APPENDIX B
Selected Information for the Six Federal Funding Programs We Selected

This appendix includes a variety of supplemental information for each of the six federal funding programs we evaluated.

Appendix B Selected Information for the Six Federal Programs We Evaluated						
Program	Description	Allowable Uses (a)	Maintenance-of-Effort Requirement		\$ Received (2015-16)	# Districts That Received Funding (f)
			State Requirement	District Requirement (e)		
Impact Aid	Impact Aid provides financial assistance to replace lost tax revenue for school districts located near federal property. Because federal property is exempt from state and local taxes, districts located near or on federal property are subject to significant losses in revenue without the federal aid.	<ul style="list-style-type: none"> Any expenditure allowed by state law (b) 	None	None	\$24.0 million	24
Individuals with Disabilities Education Act (IDEA)	IDEA provides funding to assist states in meeting the costs of providing special education and related services to children with disabilities.	<ul style="list-style-type: none"> Salaries and benefits for special education staff Early intervention services Assistive technology Professional development 	100% of previous year's expenditures (\$442 million in 2015-2016)	100% of previous year's expenditures	\$104.8 million	286(g)
National School Lunch Program	The NSLP provides reimbursements for free, reduced-price or paid meals and snacks served to students based on family income at participating schools, non-profit private schools, and residential child care centers.	<ul style="list-style-type: none"> Equipment Supplies Staff salaries and benefits Professional development 	30% of 1980 expenditures (\$2.4 million in 2015-2016)	None	\$119.8 million	286
Title I (Poverty)	Title I provides assistance to school districts to help students in poverty or at-risk for academic failure meet state academic standards.	<ul style="list-style-type: none"> Tutoring Staff salaries and benefits (c) Parental outreach Curriculum Professional development 	None	90% of previous year's expenditures	\$109.0 million	286
Title II (Staff Effectiveness)	Title II provides funding to increase student academic achievement by improving teacher and principal effectiveness and increasing the number of highly qualified teachers in the classroom.	<ul style="list-style-type: none"> Professional development for principals or teachers Merit pay (d) Recruitment bonuses (d) 	None	90% of previous year's expenditures	\$22.1 million	281
Title III (English Language Learners)	This program provides funding to school districts to help provide additional services for students learning English as a second language and assist those students in meeting state academic standards.	<ul style="list-style-type: none"> Professional development Staff salaries and benefits Parental outreach Curriculum 	None	90% of previous year's expenditures	\$4.1 million	42

(a) This is not an exhaustive list of all allowable expenditures for each program but is intended to provide a sample of activities districts may spend their federal funds on.
(b) Funds earmarked for special education must be spent on special education students.
(c) Includes teachers and paraprofessionals.
(d) Only if the teacher teaches a subject or in a school that has a shortage of highly qualified teachers.
(e) Can be measured by total dollars spent or dollars spent per student.
(f) The state had 286 school districts in the 2015-16 school year.
(g) All school districts received IDEA dollars. Districts that are members of special education cooperatives or interlocals may have their funding sent directly to the cooperative or interlocal.
Source: Federal program documents, interviews with state and school district officials, and audited KSDE data.

APPENDIX C

Demographic Information for the 10 School Districts Selected for this Audit

This appendix contains demographic data for the 10 districts we selected to visit and gather information from regarding the administrative and operational costs associated with federal funding. We selected those 10 districts to include a variety of different types of districts in terms of size, percentage of students who receive free lunch, and percentage of students who receive special education services.

Appendix C					
Demographic and Federal Funding Data for the 10 Districts We Selected for the Audit					
(2015-16 School Year)					
USD #	District Name	Headcount Enrollment	% Free & Reduced Lunch	% Special Education (a)	Federal \$ Received (b)
259	Wichita	50,988	74%	13%	\$73,972,653
475	Geary County	7,809	61%	15%	\$41,622,082
501	Topeka	14,169	77%	18%	\$28,454,729
207	Fort Leavenworth	1,725	11%	13%	\$12,897,623
229	Blue Valley	22,546	8%	10%	\$6,699,963
489	Hays	3,119	40%	16%	\$4,265,636
413	Chanute	1,845	63%	16%	\$1,397,241
337	Royal Valley	841	49%	15%	\$898,305
270	Plainville	351	40%	15%	\$176,091
255	South Barber County	238	44%	22%	\$127,354

(a) Special education data is from the 2013-14 school year.
 (b) Includes all federal funding the district received including funding for pre-school programs. However, we excluded pre-school funding in our district analyses presented in the report.
 Source: Audited data from Kansas State Department of Education.

APPENDIX D
Agency Response

On November 16, 2016 we provided copies of the draft audit report to the Kansas Department of Education and the 10 school districts we selected to be part of the audit. KSDE concurred with our audit findings and its response is included in this appendix.

Because our report did not include recommendations, a written response from the school districts was optional and none of the districts chose to provide one. However, some districts provided us with informal feedback and indicated they concurred with our audit findings.



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November 17, 2016

Mr. Scott Frank
Legislative Post Auditor
Legislative Division of Post Audit
800 S. W. Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Mr. Frank:

Thank you for the opportunity to review your recent performance audit, *K-12 Federal Education Funds: Evaluating the Costs and Benefits Associated with K-12 Federal Education Funding*. It appears the auditors have followed the direction of the Legislative Post Audit Committee. We hope the information will be used in an effective and efficient manner.

Please feel free to contact this office if we can assist you further.

Sincerely,

Dale M. Dennis, Deputy
Commissioner of Education

DMD:tjm

cc: Heidi Zimmerman