

The California State Auditor's Review of the Migrant Education Program

*How the Discipline of Auditing Leads to Balanced
Evaluations of Program Performance*

Purpose of this Presentation

- Summarize the results of the California State Auditor's review of California's migrant program.
- Examine the impact of carrying out government auditing standards on a performance audit.
- Discuss some of the potential limitations on the conclusions that can be reached by an audit conducted under standards.

Rules of the Presentation

- Feel free to ask questions.
- We can go off script. The point is to have a great discussion, not to get to the last slide.
- I'll build in stopping points for questions.

Overview of the Program

The Migrant Education Program (migrant program):

- Provides supplemental education services to children who are eligible for the program (i.e. the children of migrant workers in the agricultural or fishing industries).
- Is fully funded by the federal government (roughly \$130 million a year in California).
- Is generally carried out through federal grants to state educational agencies who can, in turn, provide grants to local educational agencies.

Purpose of the Program

Purpose of the Federally Funded Migrant Education Program

To assist states in developing educational programs for migrant children that help accomplish the following:

- Reduce educational disruptions and other problems resulting from repeated moves.
- Overcome cultural and language barriers, social isolation, various health-related problems, and other factors that inhibit their ability to do well in school.
- Ensure that migrant children receive opportunities to meet the same content and achievement standards that other children are expected to meet.
- Prepare migrant children for a successful transition to postsecondary education and employment.

Source: Summary of the Elementary and Secondary Education Act, Section 1301.

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program (migrant program) that has provided services to California's late 1970s.¹ Children can services if they or their migrant workers in the countries and their family has years for the purpose of personal employment. and for migrant children at box outlines the purpose which is generally carried to state educational is, provide subgrants to

et of Education and the ering the Migrant Program

educational agency that program is the California Department . The federal government grants states implement migrant program services. In the en, lawmakers have required Education to en as the primary method for delivering s. State law requires that regional offices be concentrations of migrant workers and that regions include all geographic areas with ly services to migrant children residing law authorizes Education to contract ucation, which serve as regional offices, th local educational agencies (school Appendix A indicates, Education currently e 14 county offices of education serving ne directly funded school districts. provide direct migrant program wide program funds to school districts

to ensure that programs are geographically distributed. The nine school districts directly funded by Education administer their own migrant programs and are not subject to regional office oversight.

¹ Migrant program funds must be used to address the needs of migrant children that other programs do not already address. Thus, the migrant program must supplement migrant children's core academic programs, not supplant them.

Purpose of the program

How the program might work is as follows:

- An outreach specialist from a region visits a work camp of migrant workers.
- The specialist conducts an eligibility assessment interview and finds that a child qualifies.
- The specialist enrolls the child in the program and region staff assess the child's needs (academic and health).
- The child receives academic interventions that are supplemental to core instruction and other programs (i.e. reading help).
- The child's parents participate training and other parent involvement meetings.

Genesis of the Audit

- The federal Office of Migrant Education (OME) had conducted previous reviews of California's migrant program and issued four grant conditions that Education was trying to resolve
- The agency being audited, the California Department of Education (Education), actually desired that a review be done. Education sought an appropriation to use migrant program funds to conduct a review of the program.
- When the legislature approved the requested appropriation, it specified that the California State Auditor would conduct the audit.

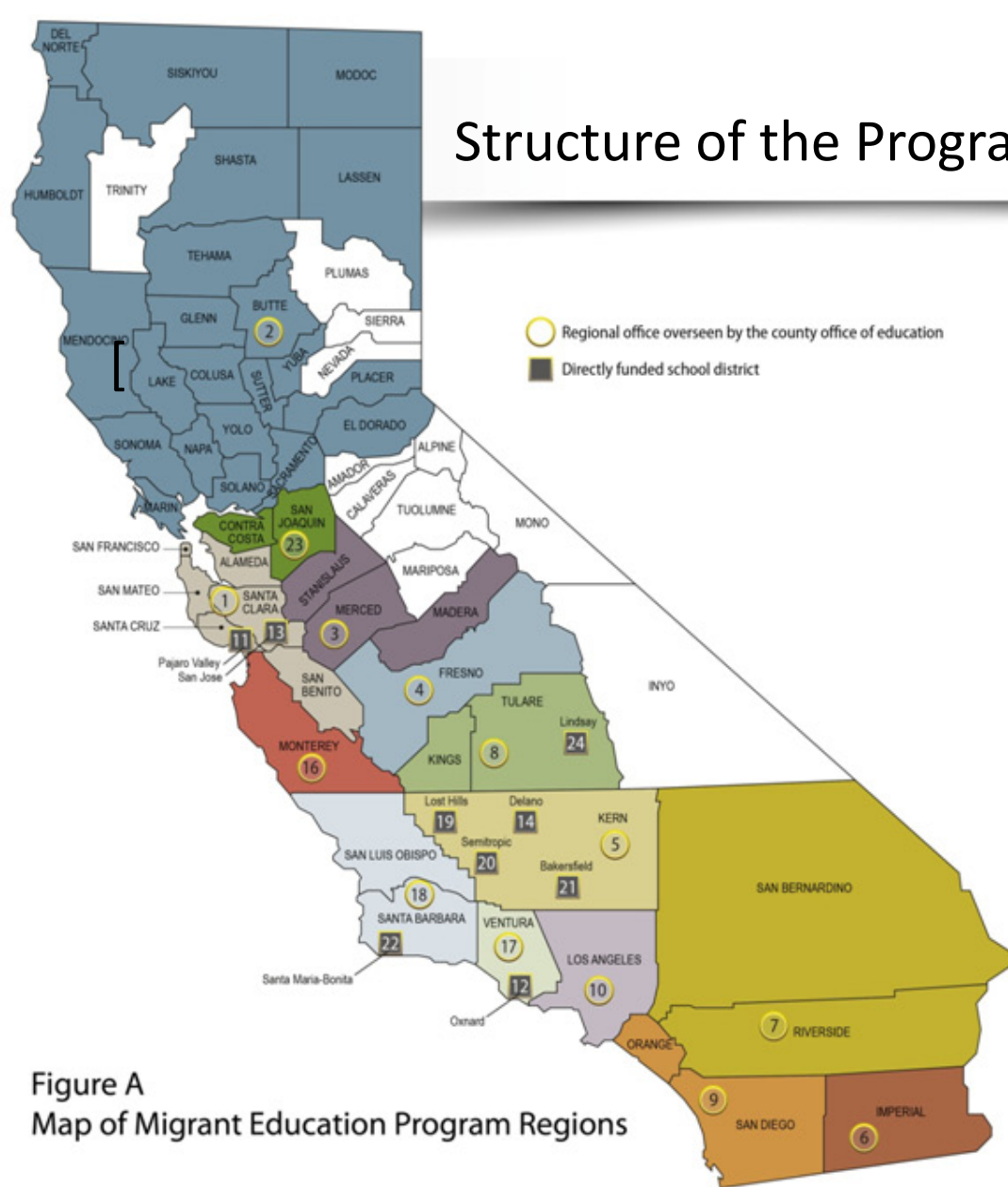
Genesis of the Audit

- During legislative hearings associated with requested appropriation, Education expressed concerns about expenditures among its various program regions and how much some of its regions were spending on administrative costs.
- In 2006, California's Legislative Analyst Office recommended re-structuring the migrant program in California so that more school districts received direct funding from Education and that Education reduce the use of regional offices.

Program Structure

- Regional offices, which are county offices of education, provide direct services and oversight of school districts in their respective geographic regions.
- Education also provides direct funding to certain local school districts. These districts do not fall under the oversight of the regions in their respective areas.

Structure of the Program in California



Source: California Department of Education (Education).
Note: Numbers shown on this map correspond to the numbers Education assigned to each region and can be found in Table A in the Region Number column. Colors on the map show regional boundaries, and the region number is placed in the county where the regional office is located.

Scope of the Audit

- Fiscal practices and oversight of Education and sample of regions (visited 8 regions).
- Program structure, alignment of goals and activities, outcomes, and data collection.
- State parent council makeup and activities.
- Response to federal findings.

Fiscal Oversight

- Fiscal oversight boils down to clear guidance and effective monitoring.
- No absence of criteria: Look to requirements for internal controls on federally funded programs (federal compliance experience is useful here).
- For state-funded programs, look to state requirements for internal controls, or establish a best practices argument .

Fiscal Oversight

- Guidance in program handbook quite sparse, especially in certain areas (i.e. food, vehicles, dance and music classes).
- Lack of formal guidance shifts the debate to the yearly approval of expenditure plans (application reviews).
- Results in ongoing disagreements and a lack of transparency in how Education is making decisions.

Fiscal Oversight

- For example, a region in early 2012 proposed to purchase a vehicle for use in the migrant program.
- Education staff initially approved the request, but then in Fall 2012, Education management rescinded the approval citing our upcoming audit of regional expenditures as the only reason for disapproval.
- Nothing in the program handbook outlines how vehicle purchases will be examined.

Fiscal Oversight

- Program staff viewed the application reviews as a form of monitoring, but we pointed out this could not be the case because application reviews are not, by definition, ongoing monitoring.
- Education has a federal program monitoring process that schedules and completes reviews at local educational agencies.
- The migrant program is a component of these reviews, but the migrant program does not control which county of offices of education and school districts get reviewed.
- Some regions went more than three years before their migrant program operations were reviewed.

Fiscal Oversight

- When you are regularly debating with regions about whether expenditures are allowable...
- ... and when you have not recently visited certain regions and reviewed their controls and expenditures,...
- ... distrust and disharmony grows. Relationships between Education and regional directors becomes strained.
- Despite the inadequacy of Education's fiscal oversight, region's expenditures were not as bad as Education worried.

Regional Expenditures

purchase calculators and science lab costs for all students at a school, not just the migrant students. Butte's regional director stated that the region mistakenly approved the expenditure and has since strengthened its review process as a result. Delano Joint Union High School District (Delano) paid over \$2,000 to transport a regional facility featuring rock walls, laser tag, and other activities not directly related to the needs of migrant students. The regional director stated that, although he was not present at the time, his understanding is that the trip was planned only after the region had approved other migrant services than it had. Nonetheless, these activities are not related to the needs of migrant students and were not included in Delano's regional migrant program fiscal handbook.

Table 3
Results of Expenditure Reviews in Eight Migrant Education Regions

	EXPENDITURES REVIEWED		QUESTIONED COSTS	
	NUMBER	DOLLAR VALUE	NUMBER	DOLLAR VALUE*
Bakersfield City School District	40	\$815,213	2	\$3,786
Butte County Office of Education	40	1,101,056	1	2,859
Delano Joint Union High School District	40	1,743,593	1	2,190
Fresno County Office of Education	40	2,067,257	-	-
Los Angeles County Office of Education	40	1,719,133	-	-
Monterey County Office of Education	40	3,423,292	-	-
Pajaro Valley Unified School District	40	291,116	1	2,720
San Joaquin County Office of Education	40	1,478,285	1	3,196
Totals	320	\$12,638,945	6	\$14,751

Sources: California State Auditor's review of selected expenditures in eight migrant program regions.

*This table includes only the questioned costs associated with our random sample of expenditures. As noted later in this chapter, we question other expenditures that we identified during our fieldwork.

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believe to be excessive food costs related to conferences, one in Bakersfield and the other in Fresno sponsored by Education. In Bakersfield, the region paid almost \$55 per person to provide food for migrant parents. This cost appeared high, however, we did not find criteria in the State's migrant program fiscal handbook that established a reasonable rate for food at a parent meeting. In fact, when asked, Education's program staff expressed that this lack of guidance with regard to food costs is a problem. The three longest-tenured migrant program staff members with responsibility for advising the regions agreed that

Regional Expenditures

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Number of selected expenditures in eight migrant program regions

Number of questioned costs in our random sample of expenditures, and in other expenditures that we identified during our fieldwork.

Delano's regional director believed to be excessive food costs related to a conference sponsored by Education. In Delano, we paid almost \$53 per person to provide food for migrant parents. This cost appeared high. However, we did not find criteria in the State's migrant program fiscal handbook that established a reasonable rate for food at a parent meeting. In fact, when asked, Education's program staff expressed that this lack of guidance with regard to food costs is a problem. The three longest-tenured migrant program staff members with responsibility for advising the regions agreed that

Disclosure of Prevalence

- Government auditing standard 7.16:
“...To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or number of case examined...”
- Adhering to this standard results in balanced reports that do not sensationalize particular findings but puts them in context.

Regional Expenditures

- Did lack of adequate guidance from Education limit the criteria we could use in our testing?
- Answer: Only when we couldn't not establish some other form of comparative criteria.
- Example: For food costs, we used per diem rates as comparative criteria.
- Example: For music and dance classes, we did not have sufficient criteria to say that these classes are not necessary. We raised the issue in the report but did not designate them as questioned costs.

Regions' Food Costs

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California State Auditor Report 2012-044
February 2013

Bakersfield's \$33 breakfast and lunch.

To determine whether the rates paid at the Bakersfield parent conference were reasonable, we consulted, as comparative criteria, the per diem rates for food that apply to federal employees. The current per diem rates for the combined cost of breakfast and lunch established by the federal General Services Administration total \$20 per person.

We believe migrant children would be better served if the region spent its funds on educational support services, as opposed to expensive breakfasts and lunches for parent conferences.

they encounter the question of whether food costs are reasonable on a regular basis. These staff members stated that Education has not developed clear guidance to direct migrant program staff or the regions about this issue. They observed that food costs that could be questioned have tended to go unchallenged. In their opinion, clear guidance would assist them in helping regions to focus the spending of migrant program funds on services for migrant children.

When we asked the migrant program director about whether food is an allowed cost for the program, she stated that the appropriate regulatory guidance that states, "refreshments or food, particularly through mealtime, are allowable." Food expenditures are an area for which there is no explicit direction about what is necessary. She indicated that this is an update to the migrant program

paid at the Bakersfield parent conference, as comparative criteria, we consulted the combined cost of breakfast and lunch established by the federal General Services Administration as criteria, at \$33 per person. This expenditure by Bakersfield

to be questionable. Bakersfield's regional director defended this expenditure, stating that the venue, a restaurant on the upper level of the tallest building in Bakersfield, was selected because of its "cultural proficiency value," which the regional director explained allowed migrant parents to see firsthand the benefits of social mobility. The regional director added, "There is no other time that these families would be able to experience . . . this type of venue, if it weren't for this conference." Despite this perspective, we believe migrant children would be better served if the region spent its funds on educational support services, as opposed to expensive breakfasts and lunches for parent conferences.

Other food costs we found questionable related directly to Education's annual parent conference, where it appears that Education itself has set a tone of excessive spending. State law requires Education to sponsor an annual conference every spring for its state parent advisory council (state parent council). Education accomplishes this requirement by convening a large conference of approximately 1,000 migrant parents and program

⁸ The amount we question includes a prorated portion of the 20 percent service charge that the region paid for these meals.

Regions' Food Costs

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The regional director said what?

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When we asked the migrant program director about whether food is an allowed cost for the program, she stated that the appropriate regulatory guidance that states, "meals or food, particularly high mealtime, are allowable" and expenditures are an area for explicit direction about what is appropriate. She indicated that this is up to the migrant program director.

At the Bakersfield parent conference, as comparative criteria, we used the cost of breakfast and lunch for federal employees. The General Services Administration uses rates as criteria, at \$33 per person per day. The expenditure by Bakersfield for the restaurant on the upper level was selected because of its "cultural proficiency value," which the regional director explained allowed the benefits of social mobility.

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⁸ The amount we question includes a prorated portion of the 40 percent service charge that the region paid for these meals.

Education's Example

- Two other questioned food costs came from an Education-sponsored parent conference.
- State law requires Education to sponsor an annual conference for its state parent council, which is comprised of about 30 individuals.
- Education accomplishes this requirement by convening a conference of approximately 1,000 parents and program staff in a Los Angeles hotel.

Education's Example

- Education's agreement with the hotel had conference participants pay (with migrant program funds) \$100 per day for meals.
- The federal per diem rates for the Los Angeles area is \$66 per person.
- We estimated that the total amount of questioned food costs for this conference over the last three years is \$200,000.

Regional Expenditures

- If we were to remove the two questioned costs directly associated with Education's parent conference, the regions we visited would only have 4 questioned costs of the 320 randomly-selected expenditures (roughly \$6,000).
- Of the \$130 million it annually receives, we can project that California's migrant program has around \$150,000 that might be found unallowable (including the parent conference findings).

Regions' Internal Controls

- Internal controls at the eight regions we visited were adequate and generally followed.
- The migrant program is not the only program county offices of education and school districts run.
- The regions' general controls and processes help ensure responsible conduct despite shortcomings in the state's fiscal oversight.

Internal Controls

- On performance audits, reviews of internal controls should not get forgotten.
- Government auditing standard 6.16 specifies that “Auditors should obtain an understanding of internal control that is significant with context of the audit objectives, ...”

The Beauty of Internal Controls

- Criteria: Internal controls, especially for federally funded programs where OMB literature is applicable, opens up a wide variety of criteria.
- Condition: The finding of our internal control reviews can help us target our testing to high-risk areas.
- Cause: Internal control strengths and weaknesses help us discover why we are seeing certain conditions.
- Recommendation: Knowing the source of a problem helps us suggest an appropriate fix.

The Beauty of Internal Controls

Audit Scope



Internal Controls

- After conducting a number of initial interviews, we became concerned with the level of turnover occurring within Education's migrant office.
- We used internal control literature published by OMB to establish criteria for reviewing this turnover.

Control Environment

In addition to experiencing a loss of positions, Education has undergone high staff turnover in its migrant program office. This turnover coincides with many pressing issues related to the migrant program, including the migrant program office's need to address a large number of required responses resulting from federal reviews.

As a recipient of federal funds, Education is required to maintain processes to ensure compliance with applicable laws and regulations (internal controls). Our standards require us to examine Education's internal controls, including a review of the control environment. One factor in a positive control environment is the absence of excessive turnover among key personnel.

Figure 2 shows the annual turnover that the migrant program office has experienced since 2008. The average turnover in the past four years has been over 30 percent, with turnover rising to above 50 percent in 2012. By comparison, the national average that the Bureau of Labor Statistics reports for state and local government employee turnover during the same period was roughly 15 percent.

Education's day-to-day liaisons to the regions and are responsible for offering the regions guidance. Therefore, the loss of staff positions, combined with the presence of newer, less experienced staff in key positions, likely contributes to a drain on the knowledge available to the migrant program office as it guides programs in the regions.

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Figure 2
Turnover at the California Department of Education's Migrant Education Program Office Through 2012

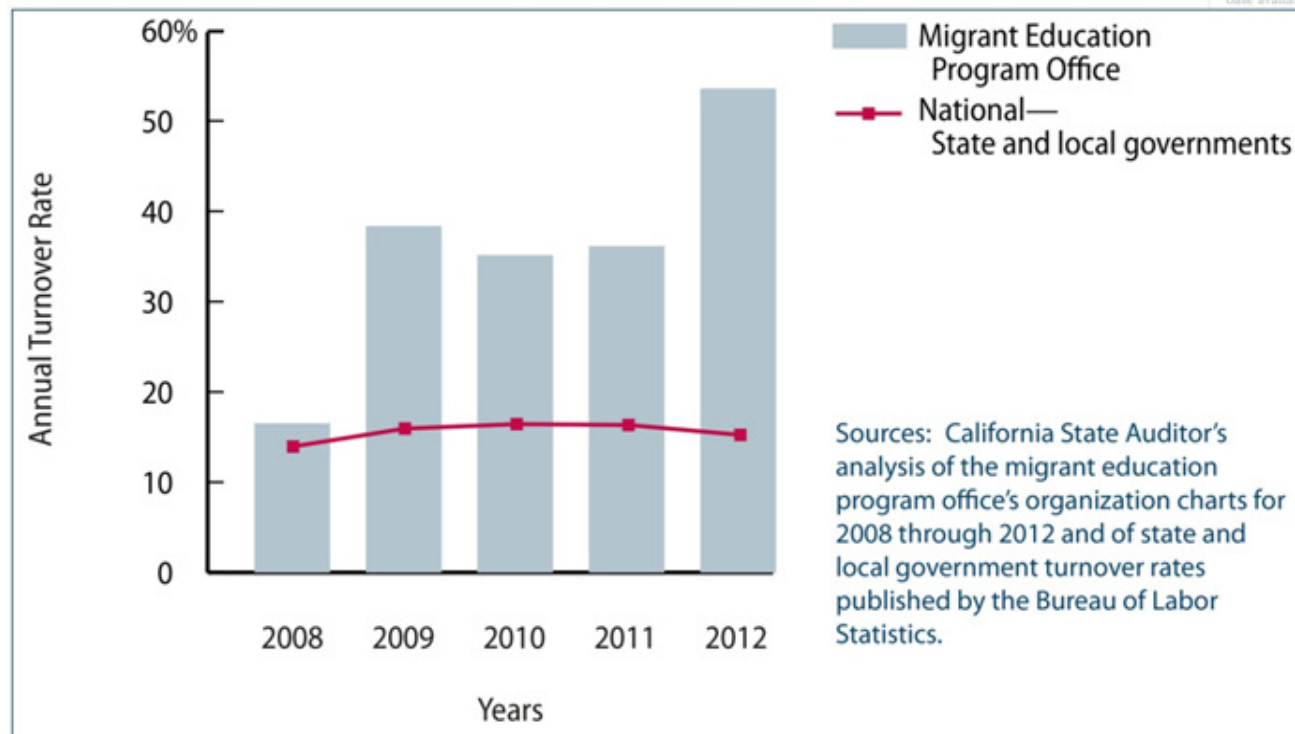


Source: California State Auditor's analysis of the migrant education program office's organization for 2008 through 2012 and of state and local government turnover rates published by the Bureau of Labor Statistics.

Control Environment

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February 2013

Figure 2
Staff Turnover at the California Department of Education's Migrant Education Program Office
2008 Through 2012



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Sources: California State Auditor's analysis of the migrant education program office's organization charts for 2008 through 2012 and of state and local government turnover rates published by the Bureau of Labor Statistics.

Internal Controls

- We planned on using our initial assessment of internal controls at each region to target particular expenditure types.
- However, we continued to find that regions' controls were generally adequate across the different types of expenditures.
- We used a straight random sample (specifically, monetary unit sampling where each dollar expended has an equal chance of being selected).

Internal Controls

- Because we had examined Education's controls, we were better able to associate deficiencies at the local regions to inadequacies of state oversight (establishing cause).
- We could then craft our recommendations to target root causes.

Fraud risk assessment

- Government auditing standard 6.30 states:
“In planning the audit, auditors should assess risks of fraud...”
- Our fraud risk assessment targeted, not surprisingly, the location where the most money was spent—the regions.
- Based on initial interviews with Education, we were concerned about fraud at the regions.

Fraud risk assessment

- We determined that we would adjust our testing based on the quality of controls we found at the regions. However, as stated earlier, we generally found the controls to be adequate.
- As the audit team hypothesized how a fraud could occur, we acknowledged that the regional directors were uniquely positioned to approve all migrant program expenditures (although a subsequent review by the regions' administrative sections gave us sufficient comfort).

Conflict of Interest

- Having had a dialogue about the risks of fraud, our interest was piqued when we heard a regional director had suddenly left her position in December 2011.
- In a meeting with program management and staff, we asked why the former director left.
- The response we got was that she left for “personal” reasons.

Audit Supervision Standard

- Government auditing standard 6.53 states:
“Audit supervisors ... must properly supervise audit staff.”
- Having two people at the interview—a staff member and experienced supervisor—allowed us to not just hear the answer to the question, but to see the body language of others in the room.

Conflict of Interest

- The supervisor's experience told him that the answer given made certain people in the room uncomfortable.
- This allowed us to engage in further questioning and ultimately led to request the personnel file of the former director.
- In the personnel file, we discovered a separation agreement involving a conflict of interest.

Conflict of Interest

- Although the region tried to categorize this issue as personnel matter, the conflict of interest involved the inappropriate expenditure of nearly \$140,000 in migrant program funds.
- The former director had directed contracts to her husband's janitorial company and to her own catering business.
- The total cost of the janitorial services paid to the former director's husband was over four times higher than what the region is paying now.

Questions?

- Before I proceed, any questions?

Organizational Structure

- Part of the audit scope was to examine the “regional service delivery model”, or organizational structure of the program.
- To examine this structure, we wanted to understand how we could measure the efficiency and effectiveness of the various aspects of the program.
- For example, we wanted to know if directly funded school districts had less overhead, or if particular education interventions could be shown to be more effective than others.

Organizational Structure

- Audit Standard 6.56 requires that “auditors obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”
- In planning the audit, we explored the availability of program data that would speak to the efficiency and effectiveness of the program and its component parts.
- We found some data existed but, under audit standards, we needed to know if the data was reliable.

Administrative Cost Calculation

Prompted by federal OME, Education attempted to calculate the administrative costs of its regions by:

- Classifying each accounting code used by the regions as direct or administrative, and then...
- Retroactively applying this classification to expenditure data from previous fiscal years.

Education admitted that it did not collaborate with the regions before classifying certain codes as direct or administrative.

Administrative Cost Calculation

- Spoiler Alert. We ended up finding that Education's administrative cost calculations were not reliable.
- The descriptions associated with Education's accounting codes are not specific to the migrant program and leave plenty of room for interpretation.
- Consequently, the regions charged similar expenditures to different codes.

Administrative Cost Calculation

- In our examination of 320 expenditures, we determined whether regions used appropriate accounting codes.
- We found 47 expenditures incorrectly coded; 28 of these errors would adversely affect Education's administrative cost calculation.

Administrative Cost Calculation

- We also found 11 expenditures that regions coded appropriately but, under Education's classification system, would be incorrectly designated as administrative or direct service.
- We concluded that the administrative costs calculated by Education were not reliable.
- We made a number recommendations to Education to address this problem.

Organizational Structure

- Now that we better understood the process that created the administrative cost calculation, and our testing revealed numerous errors, we could not use this unreliable data to examine the efficiency of the structure.
- Because of the number and type of errors we could not mitigate the errors by any adjustments in our calculations.

Program Data

- Audit standards require us to test the reliability of data and limit our ability to base conclusions on data found to be unreliable.
- This can be a significant limitation, but one that safeguards us from spurious conclusions.

Program Data

- Education used its calculations, which found some regions with administrative costs as high as 40 percent, to justify its request for an appropriation for a migrant program review.
- In doing so, Education characterized its own calculations as OME findings, stating that “OME found regions with excessive administrative costs that not only exceeded California administrative cost standards but reduce the funds available for direct services to migrant students.”

Structure of the Program

- In regards to the effectiveness of the program, we examined whether data existed showing which types of educational interventions (i.e. regional services, statewide program services, district level services) were most effective.
- In summary, we found that available performance data was very limited and was known to be incomplete.

Structure of the Program

- Education was already aware of the incompleteness problem and, through a contractor, was actively working on it during the audit.
- To supplement limited state-level data, we found that regions had developed their own information systems to collect performance data.
- Even so, these disparate systems did not allow for a program-wide view of effectiveness.

Structure of the Program

- Without reliable data to support a conclusion that a modification to the program structure was necessary, we stated that Education needed to correct its oversight of the program before an evaluation of the structure could occur.
- This may be viewed as a limitation; but basing conclusions on reliable data and evidence, is a fair approach that ensures that our recommendations for action have sufficient basis.

State Parent Council

- We found that Education had made strides in correcting the problems associated with its state parent council.
- The correction we recommended was that Education provide necessary training to council members so that the council could do better at preparing an annual performance report required by state law.

Response to Federal Findings

- Most of the concerns raised by federal reviews were the result of past inaction or lack of communication by Education in response to requests from OME.
- The past mistakes caused a firestorm of grant conditions and required reports.
- We detailed Education's response to federal findings in the Appendix of the report.

Conclusion

The migrant program audit reinforced my belief that:

- Complying with audit standards, including data reliability assessments, results in fair findings and balanced reports.
- As boring as internal control and fraud risk assessments sound, they actually result interesting discoveries and in deeper, more meaningful program reviews.