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INTEGRATED FISCAL ACCOUNTABILITY (IFA): EXCESS COST

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EXCESS COST

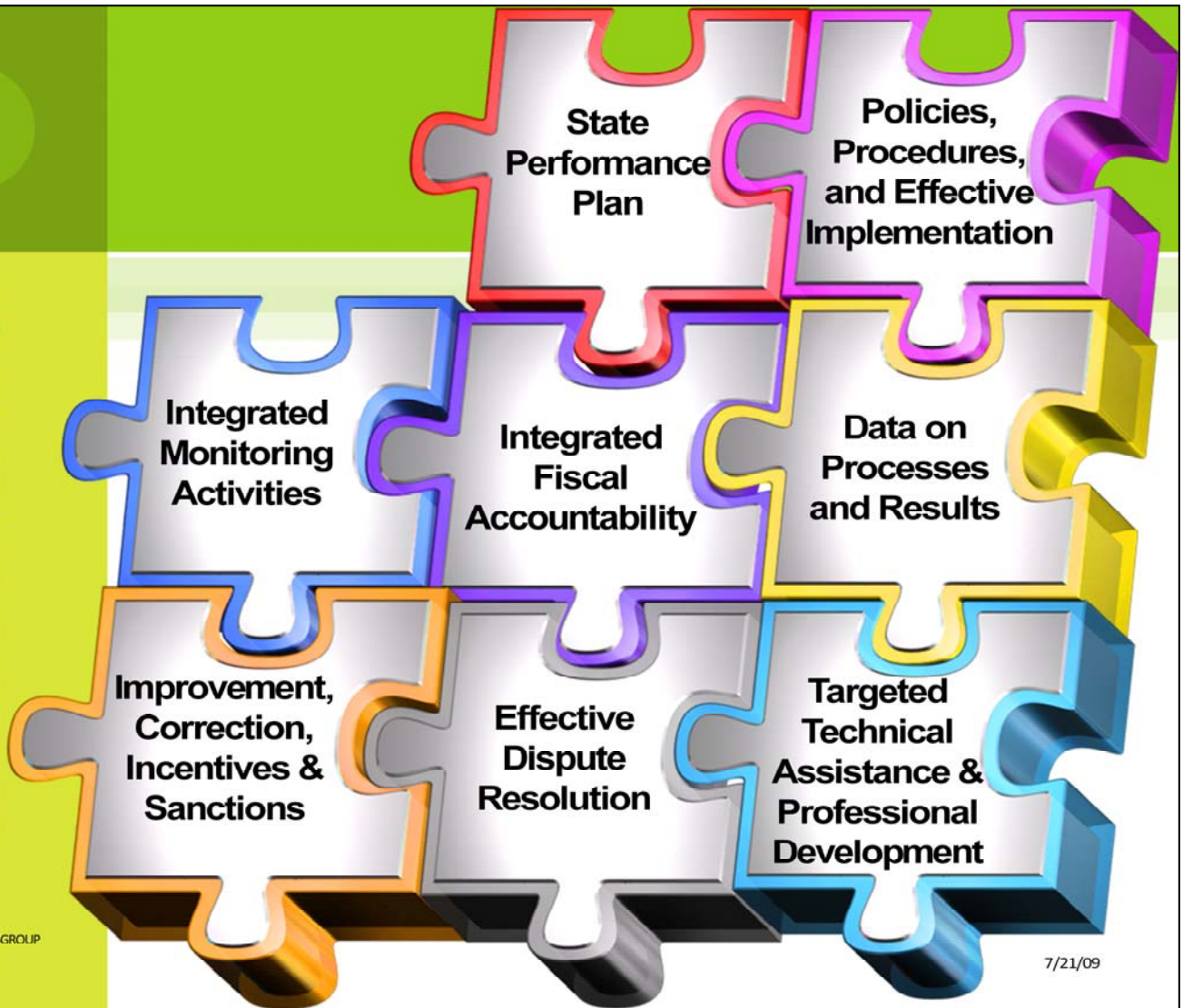
PART B

7/21/09

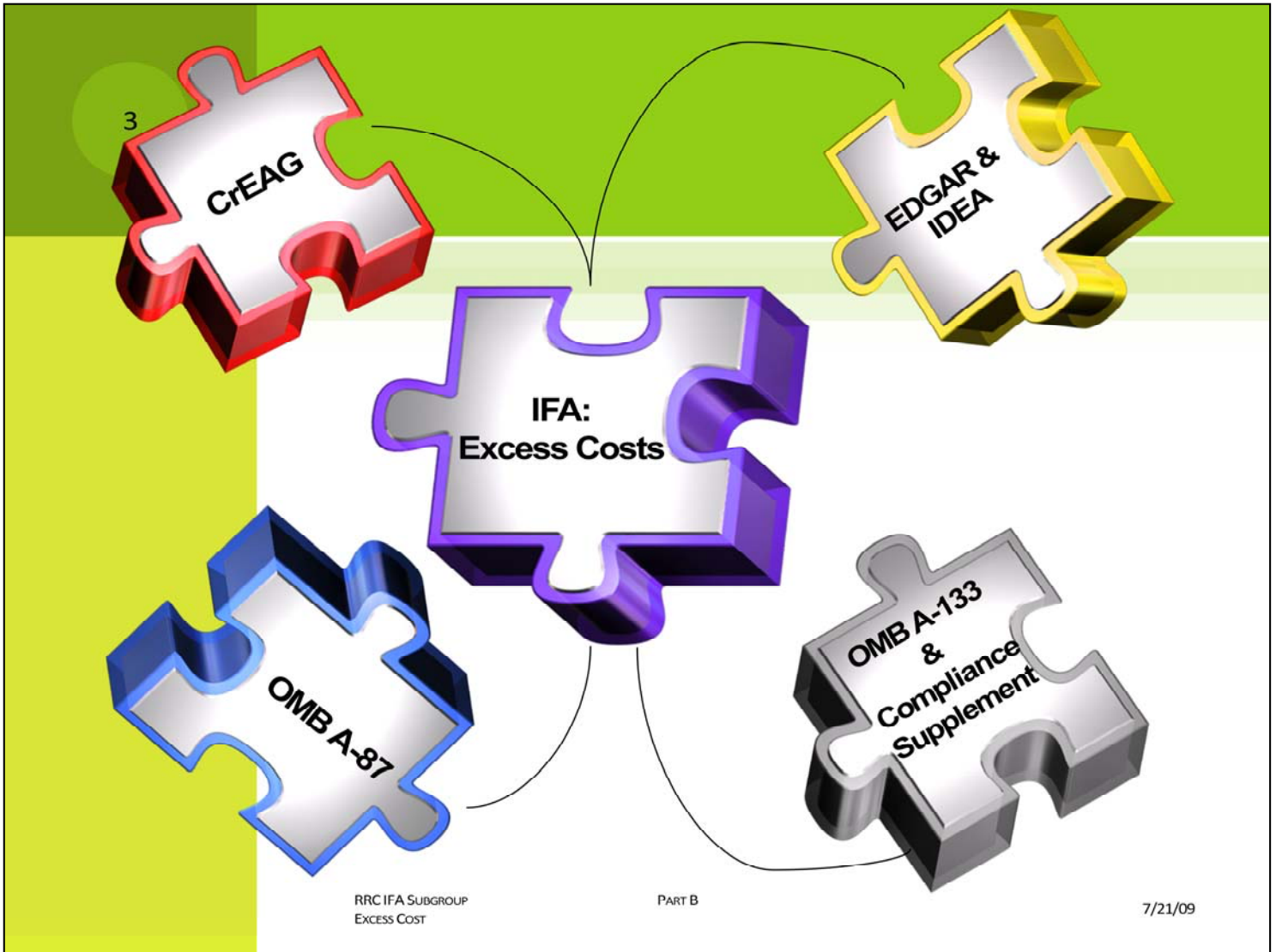
Today, we will be discussing what might be characterized as a “sleeper” requirement.

We don’t talk about it very much but there seem to be many questions about it and it should be helpful to discuss this requirement. There are handouts available as part of the presentation and you can print them off for reference. We’re going to look closely at excess cost, and clarify some of the confusing issues around this topic.

“THE PUZZLE PALACE” GENERAL SUPERVISION



Integrated Fiscal Accountability, or I-F-A, has been characterized as the “glue” that holds together the other pieces of general supervision under the Individuals with Disabilities Education Act, or I-D-E-A. Today, we’re going to delve more deeply into another of the components of I-F-A – the excess cost requirement.



We're going to break down our fiscal piece into a puzzle within a puzzle and look at the components and implications of the various pieces.



The first piece of our puzzle within a puzzle is the governing regulations and we're going to be spending a significant part of the call walking through the various regulations that govern local educational agency, or LEA, excess costs. We'll start with the general requirements in EDGAR.

PART B EXCESS COST EDGAR

Subpart F: What are the administrative responsibilities of the subgrantee?

- ◎ 34 CFR §76.700 – Compliance with statutes, regulations, and applications
- ◎ 34 CFR §76.731 – Records related to compliance

In the May slide show, we used this piece to talk about “grantees.” You saw in June that the same regulations apply to “subgrantees” which are generally LEAs. EDGAR requires that the subgrantees receiving Federal funds from the grantee, comply with all statutes, regulations and applications that implement program requirements and that the subgrantees maintain records related to that compliance. One of the program requirements is excess cost.

Having said that, we’re going to start through the IDEA regulations governing LEA excess cost.



Excess cost is one of three “tests,” if you will, regarding the local educational agencies’, or LEAs, use of amounts under 34 CFR section 300.202. The first test was discussed in the April slide show – funds must be expended in accordance with the applicable provisions of this part, and you’ll recall we talked about Office of Management and Budget, or OMB, Circular A-87 and how that needs to be read in conjunction with I-D-E-A to ensure the allowability of expenditures under IDEA. We also discussed OMB Circular A-133 and the Compliance Supplement and how the auditors look at allowable costs.

In the May and June slide shows, we talked about another of the three provisions under section 300.202 – that I-D-E-A funds must be used to supplement State, local, and other Federal funds and not to supplant those funds. In the May presentation, we talked about State educational agency, or SEA, maintenance of fiscal effort, or M-O-E, and in June, we discussed LEA M-O-E.

Today, we’ll discuss the third provision in this section of the regulations, the requirement that IDEA funds must be used only to pay the EXCESS COSTS of providing special education and related services to children with disabilities.

PART B EXCESS COST IDEA

IDEA funds may only be used to pay the excess costs of providing special education and related services for children with disabilities

See 34 CFR §300.202(a)(2)

This “excess cost” requirement is fundamental to the funding of special education and related services, so let’s take a look at what is meant by the term “excess costs.”

PART B EXCESS COST DEFINITION

What are excess costs?

- ⊙ Costs in excess of the average annual per-pupil expenditure (APPE) in an LEA during the preceding school year for which expenditures are available (e.g., 2007-2008) for...
- ⊙ ...an elementary or secondary school student, as appropriate – must be computed separately

See 34 CFR §300.16

Excess costs are those costs for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per pupil expenditure, or A-P-P-E, in an LEA during the preceding school year. An LEA must spend at least the average annual per student expenditure on the education of an elementary school or secondary school child with a disability before funds under Part B are used to pay what are then the excess costs of providing special education and related services.

Section 602(8) of the I-D-E-A and section 300.16 of the Part B regulations require the LEA to compute the minimum average amount SEPARATELY for children with disabilities in its elementary schools and for children with disabilities in its secondary schools.

Therefore, LEAs MAY NOT compute the minimum average amount it must spend on the education of children with disabilities based on a combination of the enrollments in its elementary schools and secondary schools.

Last year, OSEP issued correspondence that addresses the requirement that LEAs conduct separate computations when determining excess costs.

OSEP's Letter to Plagata-Neubauer, dated April 8, 2008, is one of the handouts posted for today's call.

PART B EXCESS COST CALCULATION

How do I compute the APPE for my elementary students?

- ⦿ Determine total expenditures for elementary school students from all sources – local, State and Federal (for example, 2007-2008)
- ⦿ Deduct from that total any capital outlay and debt service expenditures that are applicable to elementary schools (for 2007-2008)

Let's walk through the steps involved in computing excess costs. We've provided a handout that is based on Appendix A of the regulations and you might find it helpful to follow along on that handout as we walk through the steps.

In our example we're going to calculate the average per pupil expenditure for ELEMENTARY students for the 2009-2010 school year.

First the LEA must determine the total amount of its expenditures for elementary school students from ALL sources – local, State and Federal (including Part B funds) in the preceding school year. If we are computing the amount for the upcoming 2009-2010 school year, we are doing the calculation during the 2008-2009 school year, so the preceding school year is 2007-2008 – which makes sense because information for 2008-2009 would not be available at the point in time when the excess cost calculation that will apply to 2009-2010 is made. The calculation includes the total amount spent the last year for elementary school students, including children with disabilities.

The second step requires that the LEA subtract the amount of capital outlay and debt expenditures.

Capital outlay means expenditures for the acquisition of capital assets, such as equipment, buildings and land or expenditures to make improvement to capital assets that materially increase their value or useful life. The capital outlay and debt services expenditures are excluded from the total amount of State, local and Federal funds expended for elementary school students, including children with disabilities.

PART B EXCESS COST CALCULATION

How do I compute the APPE for my elementary students (continued)?

- ⊙ Deduct Federal funds expended for IDEA Part B, Part A of Title I and Parts A and B of Title III (for 2007-2008)
- ⊙ Deduct State and local funds expended for programs under IDEA Part B, Part A of Title I and Parts A and B of Title III (for 2007-2008)

Next, the LEA must subtract from the total expenditures, the amount actually spent in the preceding year (but not funds that were carried over) for the programs shown on this slide and listed on the handout.

PART B EXCESS COST CALCULATION

How do I compute the APPE for my elementary students (Continued)?

- ⊙ Take the amount calculated from the previous slides and divide by the average number of pupils (including children with disabilities) enrolled in elementary schools in the LEA in the preceding year (for 2007-2008)

The LEA must then determine the average annual per pupil expenditure for its elementary schools, dividing the average number of students enrolled in the elementary schools of the agency during the preceding year – including the children with disabilities - into the amount computed as discussed on the previous slide.

PART B EXCESS COST CALCULATION

How do I compute the APPE for my elementary students (Continued)?

- ⊙ This average per pupil expenditure (APPE) is the amount that the LEA must expend, on average, for each pupil (including children with disabilities) enrolled in the LEA in the current year (for 2009-2010)

The amount obtained through this computation is the MINIMUM amount the LEA must spend, on average, for the education of each of its elementary school children.

PART B EXCESS COST CALCULATION

Multiply the number of children with disabilities in the LEA's elementary schools for the most recent child count (e.g., December 1, 2007) by the APPE determined for the previous year (e.g., 2007-2008)

The LEA must take the number of children with disabilities in the LEA's elementary schools, using the most recent child count, and multiply that number by the elementary A-P-P-E determined for the previous year.

The result is the minimum amount of State and local funds that an LEA must spend on the education of its elementary school children with disabilities before it can begin to spend Part B funds on them.

PART B EXCESS COST EXCEPTION

There is an underlying assumption that the APPE is expended for education for all children. “All children,” in this context, includes children with disabilities, except children with disabilities ages 3-5 and 18-21 if no State or local funds are available for children without disabilities in these age ranges

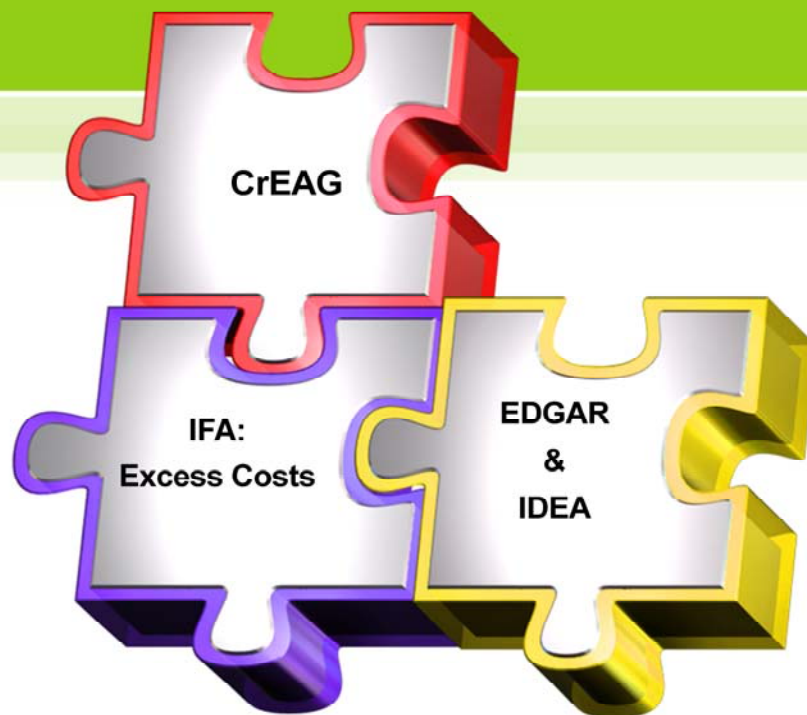
In our discussion and the example in your handout, we’ve focused on calculations of the LEA’s elementary schools. As stated earlier, the LEA must also do a separate calculation, following the same steps, to determine the amount of excess costs for its secondary school students.

We start with the premise that LEAs must spend the average per pupil expenditure for all children, including children with disabilities.

IDEA’s excess cost requirement prevents an LEA from using Part B funds to pay ALL of the costs directly attributable to the education of children with disabilities, with the exceptions noted in this slide.

The regulations at section 300.202(b) permit an LEA to use Part B funds to pay for all of the costs directly attributable to the education of a child with a disability in these particular age ranges - 3-5 and 18-21 - if no local or State funds are available to provide for the education of children WITHOUT disabilities of those same age ranges. In such cases, the LEA must comply with the nonsupplanting and other requirements of Part B in providing the education and services for these children.

Now we’ll discuss the CrEAG.



We've just walked through the regulations governing excess costs. Looking at how States ensure that LEAs meet the excess cost requirement is part of OSEP's Critical Elements and Analysis Guide, or CrEAG. We've discussed the use of the CrEAG in EACH of our monthly fiscal calls, so we'll just remind you here that this document is what OSEP uses in reviewing information about a State in preparation for a verification visit. The CrEAG documents are posted on the SPP/APR calendar and we will soon have those posted as a resource.

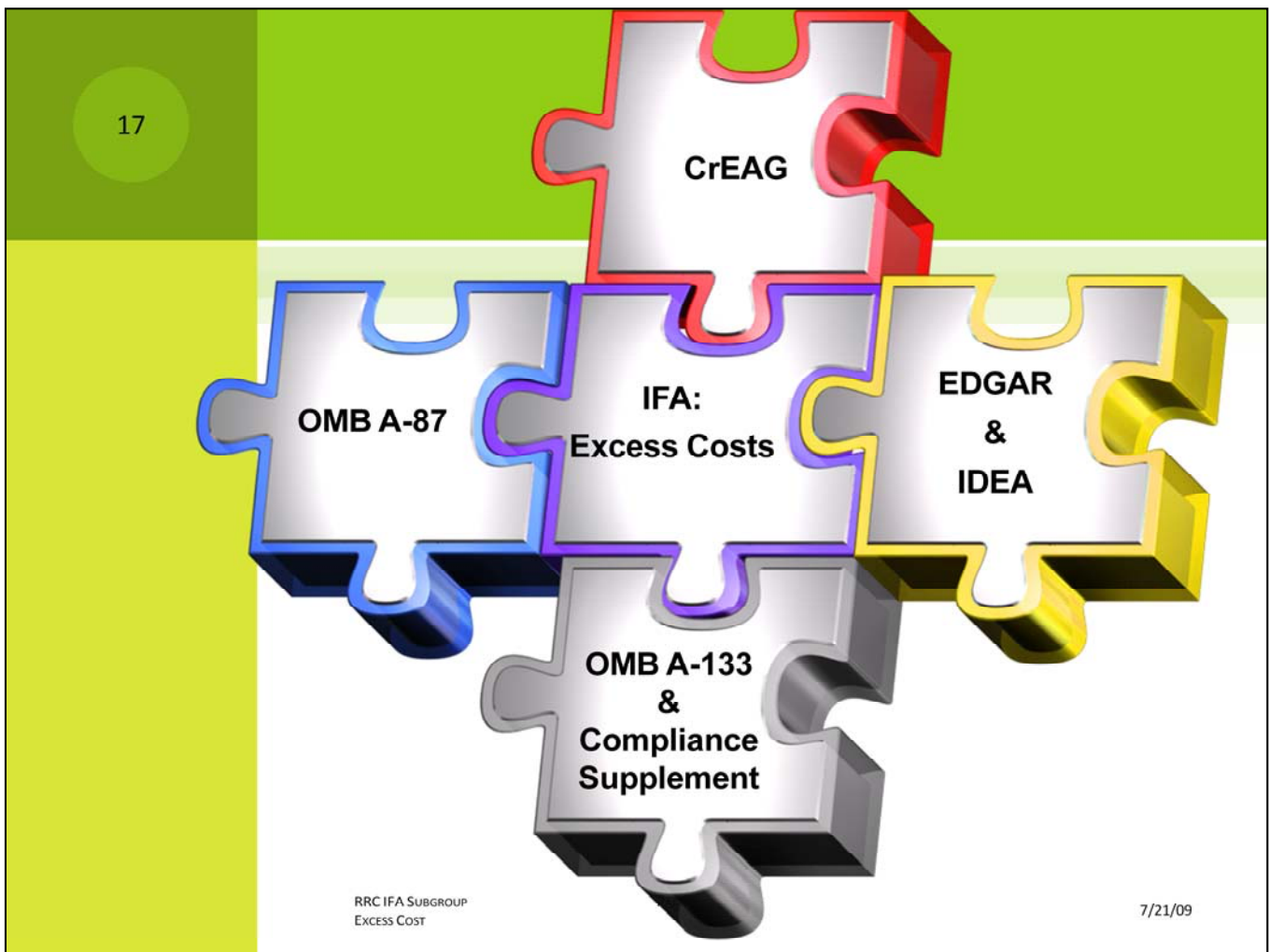
PART B EXCESS COST CREAG

Fiscal Critical Element 3: Does the State have procedures that are reasonably designed to ensure appropriate use of IDEA funds?

–How does the State ensure that LEAs comply with the fiscal requirements of IDEA (including LEA MOE, exception and reduction in MOE, CEIS, excess costs, significant disproportionality, school-wide programs, commingling, private schools, charter schools that are public schools of an LEA?)

You can see in this slide how excess cost is an area that is reviewed as part of the OSEP verification process and where it fits into the CrEAG document. During the verification process, OSEP will be looking at the State's fiscal system, including what mechanisms the State uses to ensure that excess cost requirements are being met in its LEAs. A State's inability to ensure that LEAs meet the excess cost requirement may result in OSEP findings that require corrective action on the part of the State.

In this particular CrEAG question, all of the elements that we have discussed so far in our series of calls are addressed – from excess costs and LEA MOE to coordinated early intervening services or CEIS, and the exceptions/reductions to MOE.



Let's now take a brief look at how OMB Circulars A-87 and A-133 play into the excess cost requirement.

PART B EXCESS COST A-87 AND A-133

- ⊙ Recommended addition to Compliance Supplement for 2009
- ⊙ Grant Award Implications
 - ⊙ Failure to meet excess cost requirement could jeopardize eligibility for grants under the IDEA

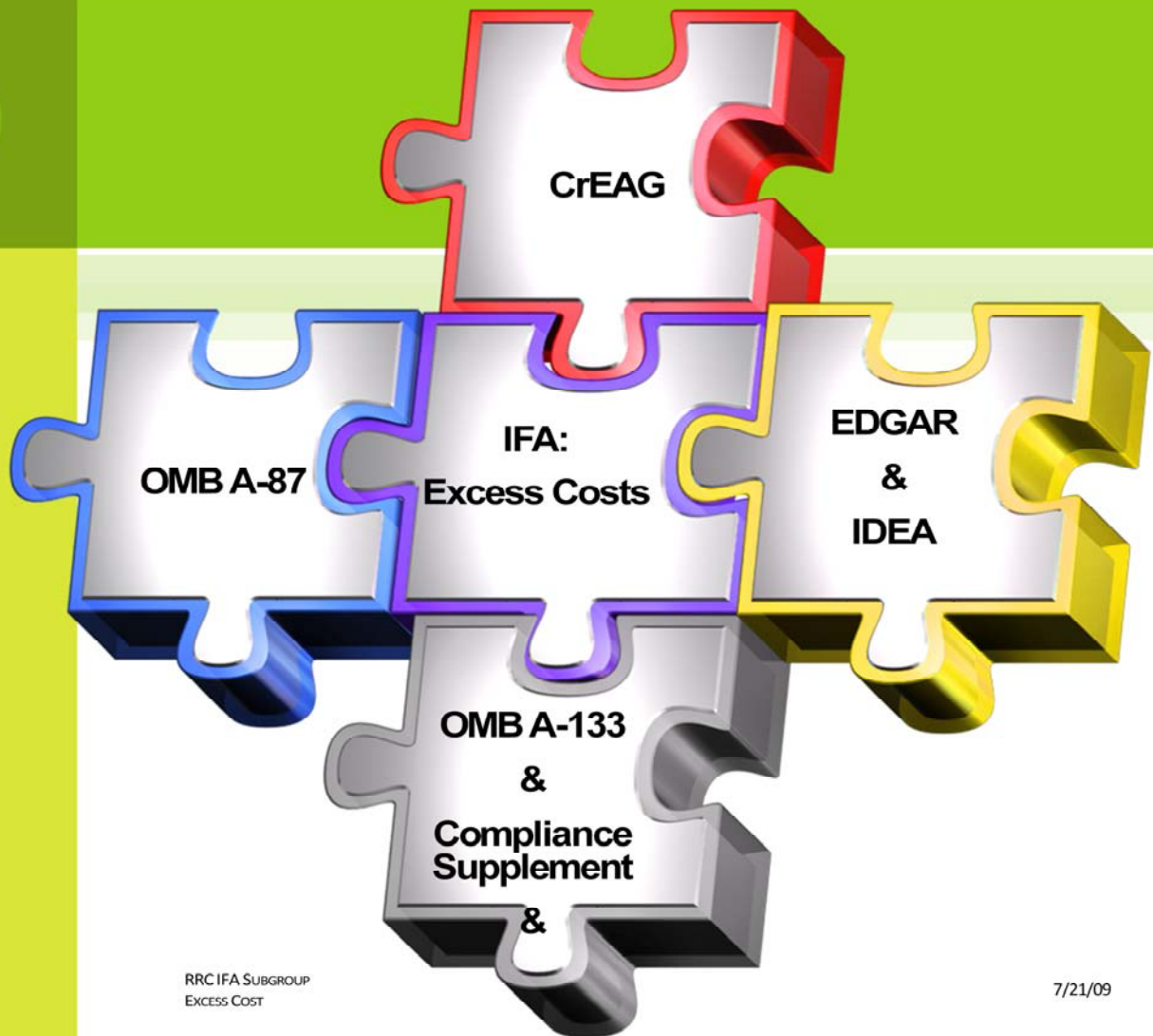
At this time, there is no direct relationship between OMB Circulars A-87 and A-133 and excess cost. OSEP IS recommending the inclusion of the excess cost requirement in the next revision of the Compliance Supplement. Additionally, because excess cost is a requirement of Part B, an LEA's failure to meet the excess cost requirement could jeopardize its eligibility to receive a grant award under I-D-E-A. Of course, as we've seen from the CrEAG and our discussion of the excess cost requirement, the SEA has a general supervisory responsibility to ensure that LEAs are meeting the excess cost requirement. OSEP has heard from some States and LEAs that while the LEAs may be computing the excess costs, they are NOT necessarily making separate calculations for elementary and secondary students.

PART B STATE MOE RISK ASSESSMENT AND INTERNAL CONTROLS

Control activities:

- ⊙ Preventative
 - ⊙ Deters risk from being realized
- ⊙ Detective
 - ⊙ Determines if risk could be realized
- ⊙ Corrective
 - ⊙ Detects if risk has been realized and reacts

We've emphasized in our previous slide shows that risk assessment and internal controls are central to sound integrated fiscal accountability. LEAs should constantly be assessing their risk with regard to excess cost, and establish strong internal controls for dealing with identified threats – whether it is impending economic difficulty, statewide reductions, or problems with methods of calculating excess cost. Knowing what must be included – or excluded – and ensuring that individuals understand the I-D-E-A excess cost requirement is critical, both to obtaining an accurate calculation of excess cost and in ensuring that I-D-E-A funds are used only for defraying excess costs of special education and related services for eligible children with disabilities.



And finally, you can see that the excess cost requirement, like the M-O-E requirement, allowable costs, and audit activities, is an integral part of sound fiscal management, internal controls and risk assessment.