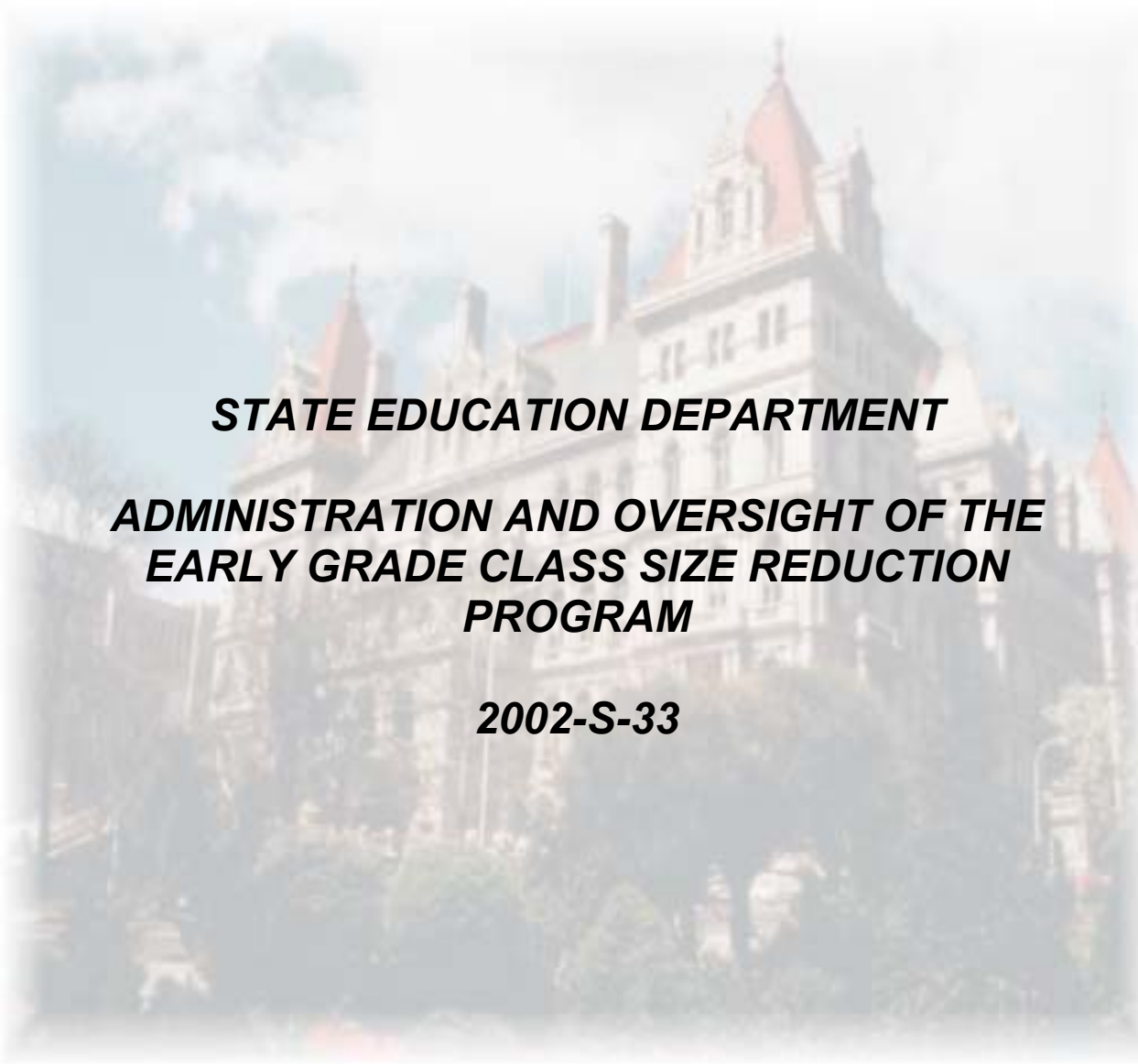


*A REPORT BY THE NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER*

**Alan G. Hevesi
COMPTROLLER**



**STATE EDUCATION DEPARTMENT
ADMINISTRATION AND OVERSIGHT OF THE
EARLY GRADE CLASS SIZE REDUCTION
PROGRAM**

2002-S-33

DIVISION OF STATE SERVICES

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Alan G. Hevesi
COMPTROLLER

Report 2002-S-33

Mr. Richard P. Mills
Commissioner
New York State Education Department
State Education Building
Albany, New York 12234

Dear Mr. Mills:

The following is our report on the State Education Department's administration and oversight of the Early Grade Class Size Reduction Program for the period July 1, 1999 through June 30, 2002.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III, Section 33 of the General Municipal Law. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of State Services

September 17, 2003

EXECUTIVE SUMMARY

STATE EDUCATION DEPARTMENT ADMINISTRATION AND OVERSIGHT OF THE EARLY GRADE CLASS SIZE REDUCTION PROGRAM

SCOPE OF AUDIT

Chapter 436 of the Laws of 1997 established the State's Early Grade Class Size Reduction Program (Program). The Program's goal is to reduce class sizes in grades kindergarten through third grade to an average of 20 students per class primarily by adding new classrooms and teachers at specific districts and schools throughout the State. The intent is to increase the ability of children to learn and achieve better test scores. Using the criteria contained in the Education Law, the Department allocates Program funds to districts based on extraordinary needs, large early grade class size, and wealth ratio (economic need). District participation in the Program is voluntary. For the 2001-02 school year, the State distributed about \$137 million in Program funding to 199 districts statewide. The five largest districts in the State commonly referred to as the "Big Five" school districts (Buffalo, New York City, Rochester, Syracuse, and Yonkers) received 77 percent of total Program funding during the first three years of the Program. The Department is charged with the responsibility for the overall administration and oversight of the Program.

Our audit addressed the following questions about the Program for the three school years ended June 30, 2002:

- Did the Big Five school districts meet their prescribed goals for adding new classes and teachers?
- Did the Department adequately administer and oversee the Program?

AUDIT OBSERVATIONS AND CONCLUSIONS

We concluded that the Big Five districts generally did not create the expected number of new classes specified by the Department throughout the Program's first three years, although the Syracuse and Yonkers districts exceeded their goals for new classes by the third year. In addition, we found significant weaknesses in the Department's administration and oversight of the Program. There is also considerable risk that deficiencies may exist at many of

the other districts participating in the Program throughout the State because of these weaknesses. Consequently, we question whether the Program's overall objectives have been accomplished adequately statewide.

The New York City, Buffalo and Rochester districts generally created far fewer new classes than specified by the Department. For example, by the third year of the Program, New York City's overall shortfall in new classes was 708 (or 45 percent of the planned increase). The overall shortfall at Buffalo was 81 (87 percent of the planned increase), and the shortfall at Rochester was 47 (51 percent of the planned increase). In addition, a number of high priority schools did not receive additional teachers and classrooms despite having the greatest need to improve academic performance. Officials at some districts indicated that a lack of space prevented them from adding classes. Department officials stated that they did not analyze the physical capacities of the Big Five districts for purposes relating to Program implementation, nor did they require the districts to perform and submit to the Department such analyses. We further noted that, by the 2001-02 year, the Syracuse and Yonkers districts had created more new classes than the amounts prescribed by the Department. (See pp. 6-11)

In addition, we identified several deficiencies in the Department's administration of the Program. The Education Law requires districts participating in the Program to submit annual plans to the Department to provide details as to how the districts will reduce class sizes to an average of not more than 20 students through the use of Program funds. We found that for the first two years of the program, Buffalo, Rochester, and Yonkers submitted annual plans indicating that they would create significantly fewer classes than specified by the Department through its award notices. The Department approved these districts' plans and paid the districts without addressing the disparities. (See pp.12-14)

We also determined that the Department did not adequately monitor the Program to ensure districts complied with their annual plans. The Regulation requires each participating district to file an annual report with the Department regarding the number of new classes added and the number of new teachers hired. However, none of the participating districts submitted annual reports, that included all information required by the Law for any of the Program's first three years. In fact, the Department never requested the participating districts to submit the required annual reports. This significantly limited the Department's ability to assess districts' compliance with their plans, and therefore, the overall success of the Program statewide. Furthermore, the Department has not complied with the Law's requirement to submit an annual report to the Legislature on the status of the Program. (See pp. 14-15)

Our report contains eight recommendations to improve Department administration and oversight of the Program. (See p. 16)

COMMENTS OF DEPARTMENT OFFICIALS

Department officials agreed or partially agreed with seven of our report's eight recommendations and indicated what actions they have taken or will take to implement the seven recommendations. Officials disagreed with the methodology we used to determine the numbers of new classes created by the Big Five districts.

CONTENTS

Introduction

Background	1
Audit Scope, Objectives and Methodology	3
Response of Department Officials to Audit	4

Program Administration and Oversight

Program Implementation by the Districts	6
Department Monitoring	12
Recommendations	16

Exhibit A

Summary of Funding and New Classes Created
For the School Years Ended June 30, 2000, 2001, and 2002

Appendix A

Major Contributors to This Report

Appendix B

Comments of State Education Department Officials

Appendix C

State Comptroller's Notes

INTRODUCTION

Background

Research indicates that students can benefit significantly from small class sizes in the early elementary school grades (kindergarten through third grade). For example, small classroom settings allow teachers to provide more individual attention to students who need help.

Concerned about many school districts' relatively poor performance on standardized State tests, such as the Fourth Grade Mathematics and English Language Arts exams, the Legislature initiated the Early Grade Class Size Reduction Program (Program) through enactment of Chapter 436 of the Laws of 1997. This legislation amended Section 3602 of the Education Law (Law). The Program's goal is to reduce class sizes to an average of not more than 20 students per class, primarily by adding new classrooms and teachers to grades kindergarten through third grade at specific districts and schools throughout the State. The Law also allows districts to use up to 10 percent of their Program funding to add new classrooms and teachers in grades four and above, thereby reducing average class sizes in those grades. Using the criteria contained in the Law, the Department allocates Program funds to districts based on extraordinary needs, large early grade class size, and wealth ratio (economic need). District participation in the Program is voluntary.

State officials intended to phase-in the Program over a three-year period, beginning with the 1999-2000 school year. Appropriations were to increase annually over the period to expand the number of districts eligible for the Program and to increase the funding that each participating district would receive for additional early grade classes. The Law prescribes the methodology to be used by the Department to determine the number of classes and teachers that districts should add each year to reduce the district-wide average size of early grade classes to not more than 20 students. Although total funding increased in the Program's second year (2000-01), funding for the Program's third year (2001-02) remained at the 2000-01 level. As a result, most participating districts did not receive increased Program funds to create new classes and hire

additional teachers beyond the levels established for the second year of the Program. In addition, delays in passing the State budget in recent years caused uncertainty regarding the amount of Program funding districts would receive, and consequently, this may have hampered districts' Program planning efforts.

In total, the State distributed nearly \$346.7 million to districts for the Program's first three years. By the Program's third year, 199 districts participated in the Program. The five largest districts in the State, commonly referred to as the "Big Five" (New York City, Buffalo, Rochester, Syracuse and Yonkers districts), received almost \$268 million (77 percent) of total Program payments during this period, as summarized in the following table:

District	1999-2000	2000-01	2001-02	Three-Year Total
Buffalo	\$2,262,002	\$4,618,385	\$4,787,827	\$11,668,214
New York City	\$47,841,415	\$88,837,812	\$88,785,831	\$225,465,058
Rochester	\$2,343,651	\$4,352,903	\$4,894,784	\$11,591,338
Syracuse	\$1,621,854	\$3,299,693	\$3,111,270	\$8,032,817
Yonkers	\$2,303,036	\$4,248,850	\$4,332,250	\$10,884,136
Total Big Five	\$56,371,958	\$105,357,643	\$105,911,962	\$267,641,563
All Other Districts	\$16,546,191	\$31,528,667	\$30,974,348	\$79,049,206
Statewide Total	\$72,918,149	\$136,886,310	\$136,886,310	\$346,690,769

In addition to the above State funding, the Federal government has provided additional significant funding for a national early grade class size reduction effort. For the 2001-02 school year, New York State received \$141.4 million in Federal early grade class size reduction funding, with the New York City district receiving \$88.2 million of this amount. Although the State's Program generally requires funding to be used for additional teachers in additional discrete classrooms, the Federal program allows newly hired teachers to be used in existing classes or as remedial instructors for small groups of children (in addition to discrete new classrooms with teachers). The State's Program does not allow the use of funds for administrative or professional development costs, whereas the Federal program does allow for them.

The Law requires districts participating in the Program to submit plans to the Department by March 1 each year for the upcoming school year. These plans, which are required to cover a minimum time period of at least three school years, provide details as to how the districts will reduce class sizes to an average of not more than 20 students through the use of Program funds. Prior to disbursing Program funds to the districts, the Department is required to review and approve the districts' plans for compliance with applicable laws and Department guidelines for the Program. In addition, the Law requires each participating district to file a report with the Department by October 15 of each year for the school year most recently completed. These annual reports must include the number of new classes added and the number of new teachers hired. Further, the Law requires the Commissioner of Education to report annually to the Legislature on the Program's status statewide beginning March 1, 2001 and every year thereafter.

Audit Scope, Objectives and Methodology

We audited the Department's monitoring and the Big Five districts' implementation of the Program for the period July 1, 1999 through June 30, 2002 – the first three years of the Program. The primary objectives of our performance audit were to determine whether the Big Five districts met their prescribed goals for adding new classes and teachers and whether the Department adequately administered and oversaw the Program. Because the Big Five districts received most of the Program's funding, we focused our audit on these five districts. To accomplish our objectives, we made site visits to each of the Big Five districts, interviewed officials of the Department and the Big Five districts, as well as reviewed pertinent records and supporting documentation of the Department and the Big Five districts. Our audit did not include a review of the districts' fiscal procedures for and controls over their Program funding allocations. Our audit did not include a review of the Federal Early Grade Class Size Reduction Program.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the Department and the school districts that are included within our audit scope. Further, these standards require that we understand the Department's and districts'

internal control structures and compliance with those laws, rules and regulations that are relevant to Department and district operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting the transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability of needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an “exception basis.” This audit report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of Department Officials to Audit

We provided draft copies of this report to Department officials for their review and formal comment. We considered their comments in preparing this report and have included them as Appendix B. Our rejoinders to the Department’s response are presented in Appendix C, State Comptroller’s Notes.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

PROGRAM ADMINISTRATION AND OVERSIGHT

The Program requires participating districts to add classes and teachers, especially to those schools that need them the most. However, we determined that the New York City, Buffalo, and Rochester districts generally added far fewer new classes and teachers than expected by the Department when it awarded funding to the districts. In addition, a number of priority schools did not receive additional teachers and classes despite having the greatest need to improve academic performance. This was especially true at the Buffalo and Rochester districts. Consequently, there is considerable risk that the full benefits of the Program may be less than intended at the New York City, Buffalo and Rochester districts.

Pursuant to the Law, the Department is charged with the general management and supervision of all public schools within the State. Thus, Department officials should use their authority to examine district operations to accurately assess the extent of district compliance with all Program requirements. However, we identified significant weaknesses in the Department's administration and oversight of the Program that contributed to the Program not being implemented as intended. Specifically, the Department did not adequately review districts' annual plans and did not require the districts to submit annual reports on Program accomplishments, consistent with the provisions of the Law. Further, the Department did not submit the required annual report on the Program to the Legislature.

There is also considerable risk that deficiencies we identified at the Big Five districts may exist at other districts participating in the Program throughout the State because of weakness in the Department's controls. Consequently, we question whether the Program's overall objectives have been accomplished adequately statewide.

Program Implementation by the Districts

Status of New Classes Added

Each year, the Department determines which school districts are eligible to receive Program grants and the amounts of such grants as prescribed by the Law, in relation to the estimated Program appropriation for the upcoming year. At that time, the Department sends each participating district an award notice that specifies the projected amount of its Program grant award and the expected number of new classes and teachers the district should add relative to its award. Participating districts then submit their annual plans to the Department to provide details about how they will accomplish the goal of reducing class sizes to an average of not more than 20 students through the use of Program funds. Department staff reviews annual plans and approves them.

For each of the Big Five districts, we compared the numbers of classes for kindergarten through grade three for each of the three school years beginning with July 1, 1999 to the numbers of classes they had during the base year, which ended on June 30, 1999 (i.e., the school year prior to the year when a district first participated in the Program, as defined by the Department). We determined that the New York City, Buffalo and Rochester districts generally added far fewer new classes and teachers than the expected numbers specified in the Department's award notices, as summarized by the following table:

District	School/ Year	Required Per Award Letter	Actual New Classes/Teachers	Percent Difference
Buffalo	1999-2000	46	25	-46%
	2000-2001	93	23	-75%
	2001-2002	93	12	-87%
NYC	1999-2000	856	836	-2%
	2000-2001	1,589	896	-44%
	2001-2002	1,589	881 (See Note)	-45%
Rochester	1999-2000	46	18	-61%
	2000-2001	92	48	-48%
	2001-2002	92	45	-51%

(Note: In addition, NYC reported creating 170 new classes in grades 4 and above with Program funds for the 2001-02 year. These classes do not count toward the goal established for kindergarten through grade 3.)

In contrast, Yonkers and Syracuse exceeded the Department's goals by the third year of the Program.

	School Year	Required Per Award Letter	Actual New Classes/Teachers	Percent Difference
Yonkers	1999-2000	35	22	-37%
	2000-2001	69	71	+3%
	2001-2002	69	74	+7%
Syracuse	1999-2000	29	24	-17%
	2000-2001	59	51	-14%
	2001-2002	59	65	+10%

It should be noted that the numbers of new classes the Department originally anticipated for 2001-02 were based on expected funding levels that were significantly higher than the amounts the Legislature actually appropriated for that year. As such, we used the same number of new classes/teachers as noted on the Department's prior year award notice because Program funding allocations for 2001-02 were generally the same funding amounts as those available in 2000-01.

As the tables demonstrate, none of the districts achieved their Department goals for new classes and teachers for the 1999-2000 school year. Only Yonkers reached its Department goal for the 2000-01 school year, and Yonkers and Syracuse exceeded their goals for the 2001-02 school year. Buffalo, Rochester and New York City did not reach their respective Department goals during any of the Program's first three years (although New York City did achieve 98 percent of its Department goal in the first year). Furthermore, the shortfalls in new classes and teachers were sometimes significant in terms of gross numbers and percentages. For example, after the initial year of the Program, in which Buffalo added 25 new classes/teachers relative to the base year, Buffalo experienced a decline in new classes/teachers in each of the next two school years. By the end of the 2001-02 school year Buffalo was 81 new classes/teachers (87 percent) below the expected number of new classes/teachers. We attribute these shortfalls, in part, to

weaknesses in the Department's procedures to verify that the districts actually created the appropriate amounts of new classes. (This matter is addressed in further detail subsequently in the report.)

Furthermore, Buffalo and Rochester officials told us that they did not have sufficient space available to add all of the classes prescribed by their districts' plans. Department officials stated that they did not analyze the physical capacities of the Big Five districts for purposes relating to Program implementation, nor did they require the districts to perform and submit to the Department such analyses. Although there is no requirement that such analyses be performed, the analyses could have provided the Department and districts with important information for planning where Program funds could be allocated effectively to implement the Program.

In some cases, fiscal problems have caused officials to deviate from their plans to add classes and teachers. For example, Buffalo officials told us that they had to lay off some of the new teachers hired with Program funding due to local fiscal problems. We note that school districts have experienced serious fiscal problems in recent years. For example, according to a study by the Office of the State Comptroller dated May 2002, the Buffalo school district would complete the 2001-02 year with a budget deficit ranging from \$28 million to \$35 million. However, we found that despite this financial condition, Buffalo did not note on its annual plan how such a deficit would affect its ability to meet Program objectives.

Department officials told us that the districts sometimes claimed (and were paid) less than the full amounts of their Program allocations as specified by the Department's award notices. Therefore, officials added, it was reasonable that the districts sometimes created fewer new classes than expected by the Department. However, we noted that the reductions in Program funds claimed and received by the districts were often proportionally far less than the shortfalls in new classes the districts created. (See Exhibit A) Thus, we conclude that the districts generally should have created more new classes than they did in relation to the amounts of Program funding they received.

For example, the Department allocated about \$2.5 million to Buffalo for the 1999-2000 school year to add 46 new

classrooms. Buffalo claimed and received about \$2.3 million (or 92 percent of its total allocation). If Buffalo added 92 percent of the expected new classes, it would have added 42 new classes for the 1999-2000 year. However, as noted previously, Buffalo actually created 25 new classrooms – or 17 (41 percent) less than the number that would have been created if the new classes added were proportional to the funding received. At Buffalo, Rochester and New York City, the percentages of the allocations claimed exceeded the percentages of new classes actually created for each of the three years we reviewed. At Syracuse and Yonkers, the percentage of the allocation claimed exceeded the percentage of new classes created for the 1999-2000 school year. However, by the 2001-02 year, the percentages of new classes created exceeded the percentages of the allocations claimed by Syracuse and Yonkers. Exhibit A summarizes our analysis of this issue.

(In response to our draft audit report, Department officials indicated that the planned numbers of new classes and teachers a district should add to their schools are subject to change if the actual State Program appropriation varies from the estimated appropriation. Consequently, officials questioned our determination of the numbers new classes that districts should have created, but did not.)

Auditor's Comments: The methodologies we employed to assess districts' compliance with Program objectives for new classes were consistent with the applicable provisions of the Law and the Regulations of the Commissioner. In addition, we understand that the numbers of new classes submitted by districts in their annual plans are based on estimated Program appropriations, and therefore, might have to be adjusted upon finalization of the State budget. However, actual appropriations were consistent with estimated appropriations for the 1999-2000 and 2000-01 years. Thus, there was no need to adjust the estimated numbers of new classes for those years. Also, as noted previously in the report, we recognized that the anticipated increase in Program funding for the 2001-02 year did not occur. Because the appropriation for 2001-02 was the same as the appropriation for 2000-01, we used the district goals for new classes for 2000-01 as the goals for 2001-02 as well to address the Department's concerns about the differences between estimated and actual Program appropriations.

Priority Schools

The Law requires districts to give funding priority to those schools with the greatest need to improve academic performance, particularly those schools where the average class sizes in kindergarten through grade three exceed the district-wide averages for such grades. In addition, the Department required each participating district to submit, as part of its annual plan, a priority ranking of each school where classes and teachers would be added and where Program funding would be spent.

To determine the extent to which kindergarten through grade three in priority schools benefited from the Program, we reviewed the pertinent records of each of the Big Five districts. Our review included those schools designated by the districts in their annual plans as having the highest priority for additional classes and teachers during our audit period. We compared the listing of priority schools, as noted in the annual plans, with the listing of schools that actually added classes and teachers during those years through the use of Program funds. We determined that New York City added classes to 159 of 160 high priority schools, while Yonkers added classes to each of its 19 high priority schools. However, Buffalo, Rochester, and Syracuse did not add classes to several of the priority schools identified in their annual plans for the 1999-2000 school year. For the 2000-01 and 2001-02 school years, Syracuse added classes to each of its high priority schools while Buffalo and Rochester did not add classes to several priority schools. In fact, for the 2001-02 year, these two districts experienced an overall decline in the number of priority schools that benefited from the Program. The following table summarizes our findings relating to the Buffalo, Rochester, and Syracuse districts.

District	Buffalo			Rochester			Syracuse		
School Year	99-00	00-01	01-02	99-00	00-01	01-02	99-00	00-01	01-02
Priority Schools Identified by District in Annual Plan	17	17	17	16	16	16	9	9	9
Priority Schools That Added Classes/Teachers	6	13	11	7	12	9	4	9	9
Priority Schools That Did Not Add Classes/Teachers	11	4	6	9	4	7	5	0	0
Percentage That Did Not Add Classes/Teachers	65	24	35	50	25	44	56	0	0

As the table indicates, a number of high priority schools did not benefit from the Program, although the districts identified them as among those most in need of assistance. Officials at Buffalo and Rochester informed us that they did not add classes and teachers to certain high priority schools because there was not sufficient classroom space available to do so. Instead, officials placed the additional classes and teachers at certain lower priority schools where space was available. We attribute this problem, in part, to weaknesses in the Department's procedures to verify that the districts actually added classes to their high priority schools. (This matter is also addressed in further detail subsequently in the report.)

We further noted that Rochester added classes to three schools that in their base year already averaged 20 or less students per class in kindergarten through third grade. At one of these schools, students also scored well on standardized tests prior to the addition of new classes. In addition, Rochester averaged less than 20 students per class district-wide for kindergarten, first grade, and second grade for the 1999-2000 year. By the 2001-02 school year, average early grade class sizes district-wide ranged from 17.3 (second grade) to 18.5 (third grade). We question whether Program funds are being used in the most effective manner at schools with relatively low student/teacher ratios.

Department Monitoring

Annual Plans

We reviewed the annual plans submitted by the Big Five districts for each of the three school years through June 30, 2002 to determine if the numbers of new classes to be created as reported on their annual plans were consistent with the numbers of classes to be created based on the Department's award notices. We found that the numbers on the annual plans for New York City and Syracuse matched the numbers on the Department's award notices. However, the plans for Buffalo, Rochester, and Yonkers indicated that these districts would create fewer new classes than specified by the Department's award notices. For example, the Department's award notice for Buffalo for the 1999-2000 school year provided a specific amount of money for Buffalo to create 46 new classrooms. However, Buffalo's annual plan (as approved by the Department) indicated that the district would create only 27 new classes – or 19 (41 percent) fewer than the number specified by the award notice. The Department's award notice for Yonkers called for 35 additional classes for the 1999-2000 school year. However, Yonker's plan (as approved by the Department) indicated that the district would create only 24 additional classes – or 11 (31 percent) fewer than the number specified by the award notice.

The following table summarizes the variances between the numbers of new classes specified by the Department in its award notices and the new classes indicated per the districts' annual plans for the 1999-2000 and 2000-01 school years. (We excluded the 2001-02 school year from this analysis because the numbers of new classes anticipated by the Department and included in district plans were based on a projected appropriation level that was significantly greater than the amount the Legislature actually appropriated for that year.)

District	Buffalo		Rochester		Yonkers	
Year	99-00	00-01	99-00	00-01	99-00	00-01
New Classes Per Department Award Notice	46	93	46	92	35	69
New Classes Per District Plan	27	79	31	71	24	54
Difference (Shortfall)	(19)	(14)	(15)	(21)	(11)	(15)
Percent (Shortfall)	(41)	(15)	(33)	(23)	(31)	(22)

Although the plans for Buffalo, Rochester, and Yonkers indicated that these districts would create far fewer new classes than prescribed by the Department's award notices, the Department approved these districts' plans without reducing the award amounts accordingly. Based on our discussions with Department staff, we conclude that Department staff did not formally compare districts' plans with the corresponding award notices to determine whether the districts intended to add the expected number of new classes.

We also found that districts did not always submit annual plans that met certain Department requirements. The districts' annual plans must address seven requirements, consistent with major provisions of the Law. For example, the plan should include a detailed explanation of how the plan will not adversely impact the class sizes of other grades. Furthermore, after a district's first year in the Program, the plan should indicate whether district officials anticipate any significant changes from prior year plans. However, we found that districts' plans sometimes did not adequately address the requirements.

For example, Buffalo's plans for the 1999-2000, 2000-01 and 2001-02 school years did not include detailed explanations of how such plans would not adversely impact the class size of other grades. We also noted that Rochester's plans for the 2000-01 and 2001-02 school years did not indicate whether there were any significant changes from prior plans. As noted previously, Rochester actually reduced its number of new early grade classes from 48 in 2000-01 to 45 in 2001-02 without

noting the reduction in its 2001-02 annual plan. Furthermore, the impacts of physical space constraints and fiscal problems (as referenced previously in this report) were not disclosed in the annual plans of any of the Big Five districts.

We conclude that the Department's review of these plans was inadequate because the plans should not have been approved with the deficiencies that existed in them. Moreover, without adequate district plans, the Department's ability to effectively monitor the districts' compliance and progress toward Program goals was diminished.

Annual Reports

The Law requires participating districts to submit written reports on their Programs to the Department by October 15 of each year for the school year most recently completed. The report should be in a form prescribed by the Department and should include, but not be limited to: (1) the number of new classes added; (2) the number of new teachers hired; (3) how the current annual plan corresponds with prior years' annual plans; and (4) a description of the involvement of parents and teachers in the implementation of the Program. To help ensure that districts have properly implemented their annual plans, Department staff should determine if the number of new classes created by a district (per its report) is consistent with the number of new classes prescribed by its annual plan and award notice. Department staff should also determine if district officials added classes to their high priority schools as well. Based on these determinations, Department staff should advise the Commissioner on the effectiveness of the Program statewide. The Law requires the Commissioner to prepare an annual assessment and review of the participating districts to determine the overall effectiveness of the Program in reducing class size. Further, the Law requires the Commissioner to submit a report, with recommendations for Program improvements, to the Legislature each year beginning March 1, 2001.

However, we determined that participating districts statewide did not submit reports that addressed all of the prescribed requirements for any of the Program's first three years. In addition, Department officials did not request the districts to prepare and submit reports, that included the required Program data, to monitor and evaluate the effectiveness of the Program statewide. The lack of adequate district reports significantly

limited the Department's ability to prepare any meaningful Program assessment. In fact, the Department did not submit the required assessment report to the Legislature for any of the Program's first three years. Consequently, the Legislature did not have important information it might have used to determine if statutory changes were needed to help ensure the Program achieved its objectives.

Department officials indicated that districts' submissions of form FS-10F (Proposed Budget for a Federal or State Project - Final) constituted their final program reports. The FS-10F is a standard form that the Department uses to administer many of its grant programs. Specifically, FS-10Fs facilitate the claim and payment of final amounts due a district pursuant to the terms of its grant. According to Department officials, they intended the FS-10Fs to be districts' final reports to obviate the need for districts to prepare an additional report that included data that was already presented on the FS-10Fs.

We generally agree that the Department should minimize the burdens placed on districts to administer initiatives, such as the Program, to the least effort needed to ensure compliance with pertinent laws, rules and regulations. However, there were significant limitations in the information provided on the FS-10Fs. For example, although FS-10Fs included the names of teachers whose salaries were charged to districts' Program grants, they generally did not indicate the numbers of new classes that districts actually created and the locations of such classes. In addition, the FS-10Fs generally did not indicate how current plans corresponded with prior years' plans or include a description of parents and teachers involvement in the implementation of the Program. Moreover, district officials told us that they did not prepare annual reports for the Program. Consequently, we conclude that they were unaware that the Department intended to use the FS-10Fs as final reports, consistent with the requirements of the Law.

Recommendations

1. Verify that the numbers of new classes and teachers noted in districts' annual plans are consistent with the numbers specified in the Department's award notices. Follow-up with districts and take other actions, as appropriate, when districts' plans are not consistent with the Department's award notices.

(Department officials disagreed with recommendation number 1. Officials stated that the numbers of new classes and teachers noted in districts' March 1 annual plans are projections. They added that, upon finalization of the State budget, the Department works with districts to adjust the number of classrooms and teachers consistent with the State's appropriation for the Program.)

2. Develop and implement procedures to provide reasonable assurance that districts actually add the numbers of new classes and teachers consistent with the Department's award notices, and that districts add new classes and teachers at the priority schools.

(Department officials agreed, in part, with recommendation number 2. Officials stated that the Department will implement procedures that ensure districts add new classes/teachers that are consistent with the Program allocations.)

3. Request districts to formally assess their physical capacity to add new classes, as part of the Program planning.

(Department officials agreed, in part, with recommendation number 3. Officials stated that they will now require the districts to assure the Department that an assessment of classroom space has been conducted as part of the planning process.)

Recommendations (Cont'd)

4. Ensure that districts' annual plans adequately address each of the statutorily prescribed requirements.

(Department officials agreed with recommendation number 4. Officials stated that the Department will review district annual plans to ensure that they adequately address each of the statutorily prescribed requirements.)

5. Ensure districts prepare and submit to the Department the required annual reports, including all information required by Law, in a format prescribed by the Department.

(Department officials agreed, in part, with recommendation number 5. Officials stated that the Department has modified the 2003-04 Application for Funding to include a separate report that includes the information required by law.)

6. Adjust final Program payments to districts, as appropriate, when districts create less than the expected number of new classes.

(Department officials agreed with recommendation number 6. Officials stated that the Department will adjust final payments to districts through the FS-10-F process, as appropriate.)

7. Formally review and summarize the data from districts' annual reports to assess the overall effectiveness of the Program on a statewide basis.

(Department officials agreed with recommendation number 7. Officials stated that information from districts' annual reports will be data entered and analyzed to assess the Program's effectiveness.)

Recommendations (Cont'd)

8. Prepare and submit the required annual assessment report to the Legislature summarizing the effectiveness of the Program and making recommendations as necessary for its improvement.

(Department officials agreed with recommendation number 8.)

**State Education Department
NYS Early Grade Class Size Reduction Program
Summary of Funding and New Classes Created
For the School Years Ended June 30, 2000, 2001, and 2002**

1999-2000	Funding Allocation Per SED Award Notice	Actual Funding Claimed by District (per SED)	Percentage of Allocation Claimed and Received	No. of New Classes To Be Created Per SED Award Notice	Actual Number Of New Classes Created (per OSC)	Percentage of New Classes Actually Created
Buffalo	\$2,460,540	\$2,262,002	92%	46	25	54%
Rochester	\$2,627,290	\$2,343,651	89%	46	18	39%
Syracuse	\$1,621,854	\$1,621,854	100%	29	24	83%
Yonkers	\$2,332,715	\$2,303,036	99%	35	22	63%
New York City	\$47,857,248	\$47,841,415	100%	856	836	98%
2000-01						
Buffalo	\$4,974,663	\$4,618,385	93%	93	23	25%
Rochester	\$5,254,672	\$4,352,903	83%	92	48	52%
Syracuse	\$3,299,693	\$3,299,693	100%	59	51	86%
Yonkers	\$4,598,850	\$4,248,850	92%	69	71	103%
New York City	\$88,837,812	\$88,837,812	100%	1,589	896	56%
2001-02						
Buffalo	\$4,974,663	\$4,787,827	96%	93	12	13%
Rochester	\$5,254,672	\$4,894,784	93%	92	45	49%
Syracuse	\$3,299,693	\$3,111,270	94%	59	65	110%
Yonkers	\$4,598,850	\$4,332,250	94%	69	74	107%
New York City	\$88,837,812	\$88,785,831	100%	1,589	881	55%

Note: 2001-02 allocations were generally kept at 2000-01 levels. Therefore, the numbers of classes to be created was the same for both years.

MAJOR CONTRIBUTORS TO THIS REPORT

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July 10, 2003

Mr. Steven E. Sossei
Audit Director
Office of the State Comptroller
State of New York
110 State Street
Albany, New York 12236

Dear Mr. Sossei:

This is in response to your letter of May 19, 2003 regarding the Office of the State Comptroller's Draft Audit Report (2002-S-33) on the State Education Department's (NYSED) administration and oversight of the Early Grade Class Size Reduction Program for the period July 1, 1999 through June 30, 2002.

The Department disagrees with the findings contained in the narrative part of the draft audit report. There still appears to be a lack of understanding by the auditors about certain fundamental features of the program that preclude it from being audited by the method of adding up the total number of classrooms in a district the prior year, the total number of classrooms applied for in a grant, and the total number of classrooms the following year. We believe the net result of the methodology used by the auditors may significantly undercount the number of classes for which a district might claim credit. For example, according to the New York City Board of Education Annual School Reports, class sizes between 1999 and 2002 declined by 11% in kindergarten (23.6 to 20.9), 9% in grade 1 (24.1 to 21.9), 8% in grade 2 (24.1 to 22.2) and 7% in grade 3 (24.5 to 22.9). These figures are not consistent with the findings of the audit in regard to the number of New York City classes created.

*
Note
1

In addition, the auditors do not have a clear understanding that the numbers submitted by districts in their annual plans are based upon estimated appropriations and are adjusted upon finalization of the State budget each year. In administering the program, the Department implemented procedures consistent with reducing class sizes. The Department incorporates by reference all prior submissions, and requests that such submissions, particularly the Department's May 16, 2003 supplemental response, be reviewed in conjunction with this response.

*
Note
2

Our comments on the recommendations are provided below:

Recommendation #1.

Verify that the numbers of new classes and teachers noted in districts' annual plans are consistent with the numbers specified in the Department's award notices. Follow-up with districts

Appendix B

and take other actions, as appropriate, when districts' plans are not consistent with the Department's award notices.

We disagree with the recommendation. The Department disagrees with the findings in the narrative upon which this recommendation is based. Initially, we are unclear as to what is meant by "the Department's award notices." The report does not specify what this means. Moreover, as the Department has noted several times, the numbers of classes and teachers in the districts' March 1 annual plans are projections. Upon finalization of the State budget, the Department works with districts to adjust the number of classrooms and teachers to be consistent with the State appropriation. The Department will continue this process.

*
Note
3

*
Notes
2 and 4

Recommendation #2.

Develop and implement procedures to provide reasonable assurance that districts actually add the numbers of new classes and teachers consistent with the Department's award notices, and that districts add new classes and teachers at the priority schools.

We agree, in part, with the recommendation. We reiterate our comment to recommendation #1 regarding the "Department's award notices." However, the Department will implement procedures that ensure districts add new classes/teachers that are consistent with the allocations. It is noteworthy that OSC appears to have given no credit for the statutorily permitted ten percent of teachers/classes added above Grade 3, where applicable. With respect to priority schools, the statute requires that priority be given to certain schools, not that classes be added solely to these schools. The Department will continue to ensure that classes and teachers are added to schools with greatest need, based on average class size, academic performance and availability of space within the school through the review of the districts' annual plans. It should be further pointed out that by the audit's own methodology in 2001-2002, 207 out of 221 priority schools in the Big 5 school districts added additional classrooms. Thus, nearly 94% of the priority schools identified by these districts received the benefits of the program.

*
Note
5

Recommendation #3.

Request districts to formally assess their physical capacity to add new classes, as part of the Program planning process.

We agree, in part, with the recommendation. The law does not require districts to conduct a formal assessment of their physical capacity to add new classes as part of the Program planning process. However, the Department has included a specific assurance to the district funding application indicating that the district conducted an assessment of available classroom capacity as part of its planning process.

Recommendation #4.

Ensure that districts' annual plans adequately address each of the statutorily prescribed requirements.

We agree with the recommendation. The Department will review district annual plans to ensure that they adequately address each of the statutorily prescribed requirements.

Recommendation #5.

Ensure districts prepare and submit to the Department the required annual reports, including all information required by Law, in a format prescribed by the Department.

We agree, in part, with the recommendation. Although the Department has obtained data annually through the annual application and FS-10 process, we have modified the 2003-04 Application for Funding to include a separate report that includes the information required by law.

Recommendation #6.

Adjust final Program payments to districts, as appropriate, when districts create less than the expected number of new classes.

We agree with the recommendation. The Department will adjust final payments to districts through the FS-10-F process, as appropriate.

Recommendation #7.

Formally review and summarize the data from districts' annual reports to assess the overall effectiveness of the Program on a statewide basis.

We agree with the recommendation. As stated in our response to recommendation #5, a separate report is now contained in the application. The Department will review the data submitted as described in recommendation #5 to assess the overall effectiveness of the program on a statewide basis. As part of the application review process, information from the annual report will be data entered, and analyzed to assess the program's effectiveness.

Recommendation #8.

Prepare and submit the required annual assessment report to the Legislature summarizing the effectiveness of the Program and making recommendations as necessary for its improvement.

We agree with this recommendation. The Department will submit the required annual assessment report to the Legislature summarizing the effectiveness of the Program and making recommendations as necessary for its improvement.

If you have any questions, please contact Cynthia Gallagher at (518) 474-5807.

Sincerely,



Richard H. Cate

cc: Cynthia Gallagher

State Comptroller's Notes

1. The audit methodologies we employed to assess districts' compliance with Program objectives for new classes were consistent with the applicable provisions of the State Education Law and the Regulations of the Commissioner of Education. The Law specifically prescribed the quantitative methodologies to be used to determine the number of new classes a district should create, along with the amount of the district's grant. The Department followed the prescribed methodologies to provide pertinent class requirement and grant data to eligible districts through award notices distributed several months prior to the date (March 1) that districts' were required to submit their annual plans. Because the data included in the award notices was prepared according to the provisions of the Law, we used that data to perform the analyses presented in our report. (Also, see note # 2.)

With regard to the New York City Board of Education, we acknowledge that average class sizes were reduced due to the addition of new classes and decreases in the enrollments of early grade students during the period in question. However, we also note that New York City did not reach the Program's primary objective of average class sizes of no more than 20 students for kindergarten through grade 3. Had New York City achieved its goals for numbers of new classes, it would have been closer to the goal of no more than 20 students per class.

2. The Department is in error as the auditors have a full and complete understanding of the process. We understand that the numbers of new classes submitted by districts in their annual plans are based on estimated Program appropriations. Consequently, the numbers of new classes might have to be adjusted upon finalization of the State budget, if the actual appropriation varies significantly from the estimated appropriation. However, actual appropriations were consistent with estimated appropriations for the 1999-2000 and 2000-01 years. Therefore, there was no need to adjust the estimated numbers of new classes for those years. Further, as noted in the report, the estimates of new classes for the 2001-02 year were based on an anticipated significant increase in the Program appropriation which did not occur. Moreover, because the appropriation for 2001-02 was the same as the appropriation for 2000-01, we used the district goals for new classes established for 2000-01 as the district goals for 2001-02.
3. As noted on page 6 of the report, the Department's award notice details the estimated amount of a district's Program grant along with the expected number of new classes and teachers the district should add relative to its grant.
4. At the time of our audit fieldwork, there was no evidence that the Department had a formal process to review districts' plans to ensure they were consistent with estimated or actual funding allocations. Although the Department disagrees with recommendation number 1, we are pleased that the Department will work with

districts to adjust the number of new classrooms and teachers consistent with the actual State appropriation.

5. We amended the report to note that New York City reported creating 170 new classes in grades 4 and above with Program funds for the 2001-02 year. Although the Law permits the use of Program funds for these grades, the related new classes do not count toward the targets established for kindergarten through third grade (the early grades).