
Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds

FINAL AUDIT REPORT



ED-OIG/A05H0025
November 2008

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education
Office of Inspector General

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Chicago/Kansas City/Dallas Audit Region

November 25, 2008

Dr. Christopher A. Koch, Ed. D.
State Superintendent of Education
Illinois State Board of Education
100 North 1st Street
Springfield, IL 62777

Dear Dr. Koch:

Enclosed is our final audit report, Control Number ED-OIG/A05H0025, entitled ***Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds***. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

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It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General
for Audit

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EXECUTIVE SUMMARY

The objective of the audit was to determine whether Harvey Public Schools District 152 (District) used Title I, Part A – Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A); Title I, Part B – Student Reading Skills Improvement Grants - Reading First (Reading First); Title II – Preparing, Training, and Recruiting High Quality Teachers and Principals (Title II-Teacher Quality); and Individuals with Disabilities Education Act, Part B – Assistance for Education of All Children with Disabilities (IDEA, Part B) program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. Our audit covered the period July 1, 2005, through June 30, 2006 (2005-2006 grant year).

During the 2005-2006 grant year, the District did not always use Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. The District

- Charged \$277,107 in personnel and non-personnel costs to the federal programs without adequate documentation;
- Charged the IDEA, Part B program \$6,260 for costs that were not allocable to the program;
- Maintained Title I, Part A program funds in excess of its program expenses; and
- Did not perform timely physical inventories of equipment purchased with federal funds.

We recommend that the U.S. Department of Education (Department) require the Illinois State Board of Education (ISBE) to direct the District to

- Provide documentation adequate to support the allowability of \$277,107 in federal expenditures or return that amount to the Department;
- Provide periodic certifications and after-the-fact personnel activity reports documenting personnel costs charged to the four programs for all employees who we did not review and were paid with program funds for the 2005-2006, 2006-2007, and 2007-2008 grant years, or return those funds to the Department;
- Develop and implement written policies and procedures for periodic certifications and personnel activity reports;
- Develop and implement written policies and procedures for properly allocating costs to the federal programs and properly train staff on the new procedures;
- Provide adequate documentation to support the allowability of \$6,260 charged to the IDEA, Part B program, determine whether the \$6,260 could be considered an allowable Title I, Part A program cost, and, if so, transfer the amount from the IDEA, Part B program to the Title I, Part A program, or return \$6,260 of unallowable costs to the Department;
- Perform a physical inventory of equipment purchased with federal funds during the 2005-2006, 2006-2007, and 2007-2008 grant years;
- Implement the written procedures for performing a physical inventory of property purchased with federal funds at least once every two years;

- Develop and implement policies and procedures to provide reasonable assurance that the time between drawing down funds and paying for grant activities is minimized; and
- Return to the Department \$33,726 in imputed interest for excess federal cash identified for the 2005-2006, 2006-2007, and 2007-2008 grant years.

In its comments to the draft of this report, ISBE neither agreed nor disagreed with Finding No. 1, disagreed with Finding No. 2, and agreed with Finding Nos. 3 and 4. ISBE agreed, in part, with our recommendations. ISBE stated that it visited the District the week of July 28, 2008, for the purpose of obtaining documentation that would allow ISBE to adequately respond to the findings and recommendations in the audit. ISBE also asked the OIG for additional information for Finding No. 1 before it could provide a full response for all recommendations in the finding. However, ISBE stated that, due to the time available to analyze the documentation, it was limited in incorporating the information into its responses.

Based on our analysis of ISBE's comments and the additional documentation provided, we did not change any of the findings. However, we revised recommendations 1.1, 1.3, 3.2, and 4.2. We summarized ISBE's comments and our responses following each finding. We included the narrative of ISBE's comments as **Enclosure 2**. However, because of the voluminous nature of the attachments ISBE included with its comments, we have not included the attachments in this report. Copies of the attachments are available upon request unless prohibited by law.

BACKGROUND

The District is located in Harvey, Illinois, 20 miles south of downtown Chicago. According to its website, the District has an enrollment of 3,537 students in Early Childhood and Pre-Kindergarten through eighth grade programs. The District operates 6 elementary schools, 1 middle school, 1 pre-kindergarten class, and 1 training center.

The District receives Department funding through the ISBE. The majority (\$2,381,143) of the Department funds the District expended (\$2,521,464) for the 2005-2006 grant year came from the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B, programs. The Title I, Part A program provides financial assistance to local educational agencies and schools with high numbers or high percentages of economically disadvantaged children to help ensure that all children meet challenging state academic standards. The Reading First program provides assistance to establish reading programs for children in kindergarten through grade three that ensures that every child can read at grade level or above no later than the end of grade three. The Title II-Teacher Quality program provides assistance to improve the quality and quantity of teachers and principals in schools. The IDEA, Part B program provides assistance for special education and related services to children with disabilities.

According to *Harvey Public Schools District No. 152 Harvey, Illinois Single Audit*, prepared by Crowe, Chizek, and Company, for the fiscal year ended June 30, 2006, for the four programs we audited, the District expended the following federal funds in the 2005-2006 grant year.

<u>Program</u>	<u>Funds Expended</u>
Title I, Part A	\$1,279,765
Reading First	\$ 296,511
Title II-Teacher Quality	\$ 251,397
IDEA, Part B	\$ 553,470
Total	<u>\$2,381,143</u>

AUDIT RESULTS

During the 2005-2006 grant year, the District did not always use Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. Specifically, the District (1) charged \$277,107 in costs to the federal programs without adequate documentation; (2) charged the IDEA, Part B program for \$6,260 in costs that were not allocable to the program; (3) maintained Title I, Part A program funds in excess of its program expenses; and (4) did not perform timely physical inventories of equipment purchased with federal funds.

FINDING NO. 1 – The District Charged to Federal Programs Costs That Were Inadequately Documented

The District charged the federal programs \$277,107 in costs that were inadequately documented. To determine whether the District charged the four federal programs only for costs that were allowable and in compliance with applicable laws, regulations, and grant provisions, we reviewed District-provided documentation¹ for

- a judgmental sample of two month's payroll (October 2005 and February 2006, with each month having two pay periods), totaling \$279,133, from a universe of payroll costs totaling \$1,980,695;
- a judgmental sample of 28 non-personnel transactions, totaling \$281,818, from a universe of \$752,834 in non-personnel costs charged to the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs;
- all 75 adjusting journal entries, totaling \$616,366, recorded during the period July 1, 2005, through June 30, 2006.

Costs were not adequately documented. The District did not provide documentation that was adequate to determine whether all the costs we selected were allowable. The District (1) did not have employees, whose salaries and wages were paid from federal awards, sign after-the-fact periodic certifications or personnel activity reports; (2) paid a former employee to serve as a mentor without maintaining adequate documentation to support the allowability of the costs; (3) could not support all the wages paid to one substitute teacher; and (4) paid for four days of workshops without documentation that three of the workshops occurred.

¹ We obtained and reviewed documentation such as purchase orders, receipts, and invoices for each transaction. We also obtained and reviewed documentation to show purchased services were provided by legitimate vendors. In addition, we obtained and reviewed personnel and accounting records to ensure that (a) Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs did not pay for time that should have been paid from another source and (b) fringe benefits costs charged to the Title I, Part A, Reading First; Title II-Teacher Quality; and IDEA, Part B programs included costs only for employees of those programs.

1. The District charged to the four programs \$240,998² of \$279,133 in personnel costs without after-the-fact periodic certifications or personnel activity reports. We sampled 45 employees, of which 15 were salaried and 30 were hourly employees. Ten salaried employees and 29 hourly employees were paid from a single federal program, while 5 salaried employees and 1 hourly employee were paid from multiple federal programs. The District did not have periodic certifications or personnel activity reports for all periods worked for the 15 salaried employees paid with Title I, Part A, Reading First, Title II-Teacher Quality, and IDEA, Part B program funds. In addition, the District did not review or certify timecards for 21 of 30 hourly employees paid with Title I, Part A; Reading First; and IDEA, Part B program funds. (See **Enclosure 1** for additional details on our testing results, by program, for salaried and hourly employees.)
2. During the 2005-2006 grant year, the District hired a retired principal to serve as a mentor. The District charged \$21,385 to the Title I, Part A program and \$15,802 to the Title II-Teacher Quality program for the mentor's salary. However, the District did not provide a written contract or job description listing the work the mentor was to perform. The District Superintendent informed us the District considered the mentor to be a temporary employee, not a consultant or contractor. In addition, the mentor was paid based on a schedule of days to be worked that was submitted to the District at the start of the school year. However, (a) these dates were not always confirmed prior to the mentor receiving payment, (b) on one occasion the mentor received payment before the scheduled date of work, and (c) the mentor submitted one request for payment and was paid for a day the school district was not in session. For each payment, the District charged the cost to a single funding source. However, the funding source changed during the year with no explanations and no documentation to support the allocation of the cost.
3. The District did not maintain adequate records to support all the wages for one substitute teacher. The Title I, Part A program was charged \$200 for two days of work performed by a substitute teacher. The teacher was paid \$100 per day for 18 days of work, but the sign-in sheets provided by the District supported only 16 days of work by the substitute teacher.
4. The District charged the Title I, Part A program \$4,500 for three days of curriculum workshops without evidence that the workshops occurred. The District paid \$6,000 to a vendor to provide four days of workshops; however, the District provided participant sign-in sheets for only one day of workshops.

For costs to be allowable, they must, among other requirements, be adequately documented. OMB Circular A-87,³ *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Paragraph C.1 provides that "To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be allocable to Federal awards . . . Be adequately documented.

² The \$240,998 is comprised of \$180,748 for salaried employees and \$60,250 for hourly employees. The \$240,998 includes \$5,578 for mentoring costs and \$200 for substitute teacher costs. Inadequately documented costs by program: Title I Part A-\$87,660; Reading First-\$34,215; Title II-Teacher Quality-\$46,546; and IDEA, Part B-\$72,577.

³ OMB Circular A-87 (Revised 5/10/04)

Further, *Attachment B, Section 8(h), Support of salaries and wages* states that—

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation Such documentary support will be required where employees work on (a) More than one Federal award, (b) A Federal award and a non-Federal award

(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee

The District needs stronger control over personnel costs charged to federal programs. The District did not have written policies and procedures for certifying personnel costs charged to the federal programs. District officials informed us that personnel costs were allocated to the federal programs based on the dollar amount of employees' salaries and the available program funding sources, not by the amount of time or effort employees spent on the activities for individual programs.

Because the District did not certify personnel costs charged to the federal programs, federal funds might have been used to pay District employees who did not perform any work for the programs or might have been paid for time spent working on multiple programs. Also, the District does not have the information needed to correctly allocate personnel costs for employees working on multiple programs. Unallowable costs charged to the program constitute a debt to the federal government and harms the federal interest. When a grantee uses federal funds for unallowable costs, those funds are not available to pay for items and services that will advance the program.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services require ISBE to direct the District to

1.1 Provide adequate documentation to support the costs or return \$277,107 to the Department;

- 1.2 Provide after-the-fact periodic certifications and personnel activity reports, signed by employees or supervisors, as appropriate, documenting personnel costs charged to the four programs for all employees who we did not review and were paid with program funds for the 2005-2006, 2006-2007, and 2007-2008 grant years, or return those funds to the Department;
- 1.3 Development and implement written policies and procedures for after-the-fact (a) semi-annual certifications of personnel costs for all employees paid from the four programs working on a single program and (b) monthly personnel activity reports or equivalent documentation supporting personnel costs for employees working on multiple programs; and
- 1.4 Develop and implement written policies and procedures for properly allocating costs to the federal programs and properly train staff on the new procedures.

ISBE Comments

ISBE neither agreed nor disagreed with Finding No. 1 and agreed, in part, with our recommendations. ISBE stated that it visited the District the week of July 28, 2008, for the purpose of obtaining documentation related to the audit that would allow ISBE to adequately respond to the findings and recommendations in the audit. ISBE also stated that certain documentation requested from the District at that time was not received until August 18, 2008, and August 22, 2008. Therefore, ISBE maintained it was limited in incorporating the information into its response.

Recommendations 1.1 and 1.2

ISBE provided the District's monthly "Time and Effort Certifications" for the 15 salaried and 30 hourly employees we sampled. ISBE also provided printouts of the District's electronic "Employee Attendance Verification Reports" for days worked in 2004-2007 in support of personnel costs. ISBE indicated it would determine the existence of periodic certifications and personnel activity reports for the 2006-2007 and 2007-2008 grant years and would review, on a sample basis, personnel costs charged to federal programs for those years. ISBE stated that if it is determined that the District cannot support charges to federal programs for the employees' work, it would direct the District to return, through ISBE, funds paid for the employees' salaries to the Department.

The District provided ISBE with a mentoring log describing the daily activities of the mentor. However, ISBE determined the log was not sufficient to make a determination as to the appropriate charging of the mentor costs between the Title I and Title II programs. ISBE stated it would direct the District to provide a breakdown of the log to indicate the appropriate program to be charged for the mentor's time. Upon receipt of that information, ISBE stated it would evaluate the appropriate charging of the mentor's pay to the programs. ISBE further stated that, based on available funding, ISBE would direct the District to transfer costs between the Title I and Title II programs to appropriately reflect the mentor's time and effort related to each program or to return, through ISBE, to the Department any improperly charged costs.

ISBE stated that, upon receipt of the information from the District, ISBE would verify the number of days the substitute teacher worked. ISBE indicated that if it is determined that the District cannot support payment for all days of work, ISBE would direct the District to return funds paid for the undocumented days, through ISBE, to the Department.

ISBE also stated it would review documentation regarding the workshop costs so that the attendance sheets can be reconciled to the information provided by the District. Based on the outcome of its review, ISBE stated it would request the District obtain additional documentation supporting the occurrence of any workshops for which attendance sheets were not provided or return funds paid for the undocumented workshops, through ISBE, to the Department.

Recommendation 1.3

ISBE agreed with recommendation 1.3 and provided a copy of a District document titled *Procedure for Time and Effort Report*. ISBE stated it would review the procedures with responsible District staff to ensure the processes are in accordance with the requirements of *OMB Circular A-87*.

Recommendation 1.4

ISBE agreed with recommendation 1.4 and stated it would direct the District to develop and implement policies and procedures to ensure that costs are properly allocated to the federal program to which the cost is associated, in accordance with *OMB Circular A-87*, and to train staff on the appropriate accounting treatment of these costs.

OIG Response

We did not change our finding and generally did not change our recommendations. We revised recommendation 1.1 to reflect the support ISBE provided. We also revised recommendation 1.3 to clarify that policies and procedures are needed for all District employees paid from the four federal programs, not just those employees paid with Title I funds. We did not make any changes to recommendations 1.2 or 1.4. If implemented, the policies and procedures recommended in Finding No. 1 should provide reasonable assurance to ISBE and the Department that the District's required certifications of personnel costs are performed when needed for employees paid with federal funds and that costs are properly allocated to federal programs.

Recommendations 1.1 and 1.2

We reviewed ISBE's response and additional documentation. The "Time and Effort Certifications" provided by ISBE were for the two months we tested for the 2005-2006 grant year (October 2005 and February 2006) and were signed by a supervisor and program administrator. We also reviewed the "Employee Attendance Verification Reports" ISBE provided and determined they (a) were records of leave taken by employees for 2004, 2005, 2006, and 2007; (b) contained no cost information; and (c) were not signed by anyone. Therefore, the "Employee Attendance Verification Reports" were not sufficient to document personnel costs charged to the four programs for all employees paid with program funds for the 2005-2006, 2006-2007, and 2007-2008 grant years.

Based on our review, we accepted partial support for 4 of 15 salaried and 13 of 30 hourly employees who were paid \$27,036 for the months of October 2005 and February 2006. We determined that, for the 2005-2006 grant year, \$27,036 was acceptable, but \$240,998 remained inadequately documented because the District's certifications either (1) stated the employee worked solely on two different federal programs at the same time, (2) were not applicable for the pay period in question, or (3) did not identify the federal program on which the employee worked during the certification period.

The documentation supporting workshop costs provided by the District was not for the workshops discussed in Finding No. 1. In addition, the *Procedure for Time and Effort Report* provided by the District only addressed procedures for personnel who were paid, at least in part, with Title I funds. As written, the *Procedure for Time and Effort Report* provided by the District would not apply to employees who were not paid, at least in part, with Title I funds.

FINDING NO. 2 – The District Improperly Allocated Costs to the Programs

The District did not properly allocate conference costs between the Title I, Part A and IDEA, Part B programs. The District expended \$21,040 for 226 District employees to attend a regional conference entitled *Transforming the Paradigm of Educating Children*. The District charged the \$21,040 equally (\$10,520 to each program) between the Title I, Part A and IDEA, Part B programs. However, using a listing of conference attendees, the District's Director of Special Education identified only 49 special education employees who attended the conference. The cost of attendance for the 49 special education employees was \$4,260, not the \$10,520 charged to the IDEA, Part B, program.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Paragraph C.1 provides that "To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be allocable to Federal awards . . . Be adequately documented." Paragraph C.3 provides that "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

The District overcharged the IDEA, Part B program \$6,260 (\$10,520 less \$4,260) for the conference costs because the District does not have written policies and procedures for allocating costs among federal programs. The District split the conference costs equally without considering the fact that only 49 of the 226 employees attending the conference worked in the IDEA, Part B program.

Unallowable costs charged to the IDEA, Part B program constitute a debt to the federal government and harms the federal interest. When a grantee uses federal funds for unallowable costs, those funds are not available to pay for items and services that may advance the program.

Recommendation

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services require ISBE to direct the District to

- 2.1 Provide adequate documentation to show the amount charged to the IDEA, Part B, program was an allowable IDEA, Part B program cost; determine whether the \$6,260 could be considered an allowable Title I, Part A program cost, and, if so, transfer the amount from the IDEA, Part B program to the Title I, Part A program; if not, return \$6,260 of unallowable costs to the Department.

ISBE Comments

ISBE agreed that the District allocated the costs to attend the regional conference to special education and non-special education District employees. However, ISBE disagreed with Finding No. 2 and maintains that professional development activities under IDEA, Part B are not limited to only special education personnel. ISBE stated that the concepts of inclusion and least restrictive environment support the use of IDEA, Part B funding for professional development of non-special education personnel. In support of its position, ISBE provided a copy of the District's 2006 fiscal year IDEA, Part B application and instructions. The application instructions under "Personnel Development Plan" states, in part:

Participation/Coordination

Describe the extent of participation of various school district personnel groups and parents in the development of the Personnel Development Plan. Include procedures for coordinating the involvement of parents, general education personnel and special education personnel with an interest in personnel development planning.

Needs Assessment

The personnel groups needing training (including parents of children with disabilities and all groups involved with inclusion activities...

Training

Identify each personnel group to be provided in-service through the plan: special education administrative and instructional personnel, general education administrative and instructional personnel, support personnel, parents, aides, and volunteers.

Section 3S of the District's fiscal 2006 approved IDEA, Part B application provides that: "Grant funds will continue to support professional development opportunities. In district workshops, seminars, and in-services will be offered to special education personnel to address a variety of interests and needs. These activities will be held in collaboration with regular education personnel to meet the needs of the students. . . ."

In addition, ISBE cited 34 C.F.R. § 300.135(a), Comprehensive system of personnel development (7-1-02 edition), which states “The State must have in effect, consistent with the purposes of this part and with section 635(a)(8) of the Act, a comprehensive system of personnel development that (1) is designed to ensure an adequate supply of qualified special education, regular education, and related services personnel.”

OIG Response

We reviewed ISBE’s response to Finding No. 2, but we did not make any changes to our finding or recommendation. We agree with ISBE that professional development activities under IDEA, Part B are not limited only to special education personnel. We asked ISBE to provide any documentation that would support that the training provided to the non-special education employees increased those employees’ abilities to include special education children in their classes and documentation to show a plan was implemented to follow-up with those employees to be sure such activities occurred. ISBE informed us it would work with the District but did not provide additional documentation in response to Finding No. 2. Without such documentation and evidence of such a plan, costs for non-special education employees to attend non-special education professional development training cannot be charged to the IDEA, Part B program.

FINDING NO. 3 – The District Maintained Excess Cash

The District maintained excess cash in the Title I, Part A program. For the 2005-2006 grant year, the District spent \$273,814 less than it received for the Title I, Part A program. The District’s records indicate that it expended \$1,481,153 of the \$1,754,967 it received for the Title I, Part A program.

This is a repeat finding previously disclosed in the District’s OMB Circular A-133 Single Audit Report, *Harvey Public Schools District No. 152 Single Audit June 30, 2006*. The report disclosed that, during the 2005-2006 grant year, the District did not spend Title I, Part A program funds within a reasonable time. The report further stated that, based on testing, it appeared that the District maintained at least \$76,000 of federal funds during the (2006) fiscal year.

According to 34 C.F.R. § 80.20(a),⁴ “A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds.” ISBE’s Funding and Disbursement Services Division’s *State and Federal Grant Administration Policy And Fiscal Requirements and Procedures*,⁵ defines excess cash on hand as “Cash received in excess of expenditures reported to date.” The publication also states “The payment schedule should be submitted based on the actual cash needs of the district. If the payment schedule has been prepared in a reasonable manner, excess cash on hand should not occur.”

Pursuant to 34 C.F.R. § 80.21(b) “Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.” The Treasury regulations provide that “A State and a Federal program agency must minimize the time elapsing between the

⁴ All C.F.R. references are to the July 1, 2005, edition.

⁵ Updated May, 2007.

transfer of funds from the United States Treasury and the State's payout of funds for federal assistance program purposes, whether the transfer occurs before or after the payout of funds." (31 C.F.R. § 205.11(a) (2005))

District officials indicated they were aware that excess cash existed in the Title I, Part A program and were working to try to minimize the problem. At the time of our audit, the District did not have written policies and procedures for drawing down federal funds. The District's accounting system did not have the capability to determine the amount of excess cash or the length of time the District maintained excess cash. The Thornton Township Treasurer serves as custodian of funds for 15 school districts, including the District. The Treasurer informed us that multiple, non-interest bearing checking accounts are used to pay expenses on behalf of the participating districts. The combined daily balance of the multiple checking accounts is estimated to be about \$5 million to \$10 million. Any funds not needed to maintain the checking accounts are pooled together and invested. Any investment income is distributed back to the participating districts. According to the Treasurer, it is not possible to determine whether the Title I, Part A funds were invested or remained in the non-interest bearing checking accounts. Therefore, we could not determine whether any interest was earned on the Title I, Part A excess cash. Because the District did not adequately forecast its cash requirements for the Title I, Part A program, the U.S. Government might have incurred additional interest costs.

Recommendations

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require ISBE to direct the District to

- 3.1 Develop and implement policies and procedures to provide reasonable assurance that the time between drawing down funds and paying for grant activities is minimized; and
- 3.2 Return \$33,726 in imputed interest, as calculated by ISBE, for excess federal cash identified for the 2005-2006, 2006-2007, and 2007-2008 grant years to the Department.

ISBE Comments

ISBE agreed with the finding that the District maintained excess cash. ISBE provided a copy of its *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* as support for its concurrence with Finding No. 3. In addition, ISBE stated the District has received audit findings in its A-133 audits on maintaining excess cash. ISBE included support for its request for, and the District's remittance of, \$3,900 to ISBE, payable to the Department, for imputed interest identified during the 2006 fiscal year A-133 single audit. ISBE stated that, based on its calculation and taking into account the return of \$3,900 in imputed interest related to the fiscal year 2006 A-133 audit finding, ISBE would direct the District to return \$33,726, through ISBE, to the Department.

ISBE calculated \$33,726 in imputed interest on excess cash for the 2006, 2007, and 2008 fiscal years for the Title I – Low Income (\$26,354), Title I – Reading First – 00 (\$587), Title I – Reading First – 07 (\$79), Title II – Teacher Quality (\$6,163), Title II – D Technology (\$125), Title IV Safe & Drug Free School (\$146), and Title V – Innovative (\$273) federal programs. ISBE also provided the detailed calculations supporting the imputed interest amounts. ISBE stated the payment amounts were obtained from its Financial Reimbursement Information System (FRIS) Disbursement Detail report, which provides the schedule of payments processed by the Illinois Office of the Comptroller. ISBE explained the expenditure amounts were generated by FRIS based on the quarterly expenditure reports submitted by the District.

ISBE agreed to direct the District to develop and implement procedures to more closely align the District's payment schedules to its estimated actual expenditures to minimize excess cash on hand in accordance with the requirements of 34 C.F.R. Part 80 and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*. Also, ISBE stated its Funding & Disbursements Division examined the District's expenditures and compared the expenditures to the District's payment schedule requests. To eliminate the prepayment and excess cash on hand, ISBE indicated it would freeze the last two payments for the 2008 fiscal year for the Title I, Part A project and not make future payments until the final expenditure report is received from the District. In addition, ISBE stated it would take further action to eliminate or minimize excess cash on hand, if such action is necessary.

OIG Response

We reviewed ISBE's calculations of imputed interest and concluded they are reasonable. Therefore, we added to our recommendations for Finding No. 3 to ask for the return of the amount of imputed interest calculated by ISBE. If implemented, the policies and procedures provided by ISBE with its comments should improve the District's ability to minimize excess cash.

FINDING NO. 4 – The District Did Not Perform Timely Physical Inventories

The District did not perform physical inventories of personal property and other assets purchased with federal funds in a timely manner. The District's Business Manager informed us the District typically conducts a physical inventory of equipment having a minimum cost of \$500 every four or five years. The District provided documentation to show the last inventory was performed in September 2005, but the Business Manager informed us the inventory before that was done in June 2002.

According to 34 C.F.R § 80.32(b) "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures." ISBE's Funding and Disbursement Services Division's *State and Federal Grant Administration Policy And Fiscal Requirements and Procedures* states, "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization and continued need for the property."

The District's Business Manager informed us the District was unaware of the federal requirement to conduct a physical inventory at least once every two years. He further stated that the District believed it was in compliance with the inventory requirements because it was following the requirements prescribed by the American Institute of Certified Public Accountants, which call for an inventory every four to five years. During the audit period, the District did not have written policies and procedures for performing a physical inventory of property purchased with grant funds but has subsequently developed procedures.

Because the District did not perform physical inventories in a timely manner, grant assets might have been lost, stolen, or used for purposes not authorized by applicable statutes without detection. When that happens, grant assets are not available for essential grant activities.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services require ISBE to direct the District to

- 4.1 Perform a physical inventory of equipment purchased with grant funds during the 2005-2006, 2006-2007, and 2007-2008 grant years; and
- 4.2 Implement the written procedures for performing a physical inventory of property purchased with grant funds at least once every two years.

ISBE Comments

ISBE agreed that the District should perform a physical inventory every two years to ensure compliance with the requirements of 34 C.F.R § 80.32 and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*. ISBE stated the District provided ISBE with physical inventory procedures. ISBE also stated the procedures indicate the District's Technology Department would conduct physical inventories for one half of the District's facilities on an alternating yearly basis, thereby covering all inventory over a two year period. In addition, ISBE indicated it would review the District's physical inventory procedures with responsible District staff and would ensure the District's physical inventory procedures are in accordance with the requirements of 34 C.F.R § 80.32 and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and that the District performs a physical inventory of all items over \$500 purchased with grant assets every two years. In addition, the District provided ISBE with documentation for a Title I inventory performed in May 2006. However, ISBE commented in its response that it was unable to determine if the Title I inventory was part of a complete inventory or just technology related equipment, or if the inventory was related to the inventory of half of the District's facilities described in the District's Physical Inventory procedures.

ISBE stated the District has informed ISBE that it is currently negotiating with an outside contractor to perform a physical inventory, and the inventory should be performed within the next month (September 2008). ISBE also indicated it would clarify, with the District, the relationship between the physical inventory procedures and the inventory to be performed by outside contractors.

OIG Response

We did not change our finding, but we revised our recommendation for Finding No. 4 to reflect the District's submission of physical inventory procedures to ISBE. We reviewed ISBE's response, including the District's physical inventory procedures provided to ISBE, and the May 2006 Title I inventory. The physical inventory procedures call for the District's Technology Department to conduct physical inventories for one half of the District's facilities on an alternating yearly basis, thereby covering all inventory over a two year period. If implemented, the District's physical inventory procedures and completion of the planned physical inventory by the end of September 2008 should enable the District to comply with the physical inventory requirements of 34 C.F.R § 80.32(b)(2) and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*. However, the May 2006 Title I inventory did not satisfy the physical inventory requirement because it only contained information on computers and printers, and only those purchased with Title I funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether the District used Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. Our audit period was the 2005-2006 grant year.

To achieve our objective, we performed the following procedures.

1. Reviewed *Harvey Public Schools District No. 152 Single Audit, Harvey, Illinois For the Year Ended June 30, 2004*, prepared by PTW & Co., and the *Harvey Public Schools District No. 152 Harvey, Illinois Single Audit* prepared by Crowe, Chizek, and Company for the fiscal years ended June 30, 2005, and June 30, 2006.
2. Reviewed the approved grant proposals for the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs for the 2005-2006 grant year.
3. Reviewed selected provisions of the No Child Left Behind Act, IDEA, Department and Treasury regulations, and OMB Circulars applicable to the audit objective.
4. Reviewed the District's web site, organizational charts, and conducted interviews with the District Superintendent, Grant Directors, and Business Office personnel to gain an understanding of the District's history and organization.
5. Gained a limited understanding of the District's internal control structure, policies, procedures, and practices applicable to the administration of the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs. (We did not assess the adequacy of the control procedures.)
6. Obtained and reviewed detailed accounting records from the District for the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs for the 2005-2006 grant year.
7. Selected a judgmental sample⁶ of 28 non-personnel transactions totaling \$281,818, from a universe of 414 non-personnel transactions totaling \$752,834, from the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs. We obtained and reviewed supporting documentation such as approvals, purchase orders, receipts, and invoices for the transactions. We also obtained and reviewed documentation to show purchased services were provided by legitimate vendors.
8. Selected a judgmental sample⁷ of two months from the 2005-2006 grant year. We selected the months of October 2005 and February 2006; each month had two pay periods. We traced all Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B staff salaries, totaling \$279,133, from a universe of personnel costs totaling \$1,980,695, to supporting documentation. We reviewed personnel and accounting records to ensure that:

⁶ Judgmental sample selection was based on the perceived level of risk for the transaction, dollar value of the transaction, and our need to test transactions from each of the four federal programs.

⁷ Judgmental sample selected to provide coverage of both calendar years of the grant award year, personnel costs for extra duty pay, and coverage of the middle of the grant award year.

- (a) Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs did not pay for time that should have been paid from another source, and (b) fringe benefits costs charged to the Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B programs only included costs for employees for those programs.⁸
9. Reviewed all 75 adjusting journal entries, totaling \$616,366, from July 1, 2005 to June 30, 2006. We obtained and reviewed supporting documentation to determine if costs were properly charged to the four federal programs.
 10. Reviewed ISBE's response to the draft report to determine whether it was sufficient to revise our findings or recommendations.

We also relied, in part, on expenditure data provided to us by the District from its computer systems. To ensure the reliability of the data, we compared the data to hard copy and electronic supporting documentation such as personnel records, purchase orders, invoices, and receipts to corroborate data such as dates, amounts, and names of vendors for expenditure transactions. We reviewed the data for completeness to determine if the District could account for all funds drawn down. Based on these comparisons, we concluded that the data the District provided for personnel and non-personnel costs were sufficiently reliable for the purpose of our audit.

We conducted our audit from August 2007 through March 2008 at the District's administrative offices in Harvey, Illinois, and at our offices. We discussed the results of our audit with District officials on March 17, 2008. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

⁸ We selected 45 employees from a universe of 204 employees whose salaries were paid with Title I, Part A; Reading First; Title II-Teacher Quality; and IDEA, Part B, program funds.

Enclosure 1: Sample of Personnel Costs

	Title I, Part A	Reading First	Title II- Teacher Quality	IDEA, Part B	Total*
Number of Hourly Employees Reviewed	20	8	2	1	31
Number of Hourly Employees Whose Costs Were Inadequately Documented	19	0	2	1	22
Amount of Hourly Personnel Costs Reviewed	\$67,903	\$6,296	\$5,364	\$4,356	\$83,920
Inadequately Documented Hourly Personnel Costs	\$51,344	\$0	\$4,550	\$4,356	\$60,250
Number of Salaried Employees Reviewed	5	5	4	6	20
Number of Salaried Employees Whose Costs Were Inadequately Documented	5	5	4	6	20
Amount of Salaried Personnel Costs Reviewed	\$36,315	\$37,460	\$53,218	\$68,221	\$195,214
Inadequately Documented Salaried Personnel Costs	\$36,315	\$34,215	\$41,997	\$68,221	\$180,748
Total Amount of Personnel Costs Reviewed	\$104,219	\$43,756	\$58,581	\$72,577	\$279,133
Total Amount of Inadequately Documented Personnel Costs	\$87,660	\$34,215	\$46,546	\$72,577	\$240,998

* Total dollars may not add up due to rounding. Number of personnel includes duplications of staff whose salaries were charged to more than one federal program. Our sample included 45 unduplicated staff (15 salaried and 30 hourly employees.)

Enclosure 2: ISBE Comments



Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001
www.isbe.net

Rod Blagojevich
Governor

Jesse H. Ruiz
Chairman

Christopher A. Koch, Ed.D.
State Superintendent of Education

August 25, 2008

Mr. Gary Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of the Inspector General
Citigroup Center
500 W. Madison Street, Suite 1414
Chicago, IL 60661

Control Number
ED-OIG / A05H0025

Dear Mr. Whitman:

I have received the Office of Inspector General's draft Audit Report, titled *Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds*, dated June 25, 2008.

Enclosed is the Illinois State Board of Education's response to the findings and recommendations made by your audit team.

If you require further information or clarification, please contact Lisa LaBonte, Chief Internal Auditor, at 217-782-2237 or by email at llabonte@isbe.net.

Sincerely,

/s/

Christopher A. Koch, Ed.D.
State Superintendent of Education

Enclosures

cc: April White

Illinois State Board of Education

Response to: *Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds*

Control Number ED-OIG / A05H0025

General Comment: The Illinois State Board of Education (ISBE) performed an on-site visit of Harvey Public Schools District 152 (Harvey 152) the week of July 28th, 2008 for the purpose of obtaining documentation related to this audit that would allow ISBE to adequately respond to the findings and recommendations in this audit. Certain documentation requested from Harvey 152 at that time was not received by ISBE until August 18, 2008 and August 22, 2008. Due to the time available to analyze this documentation, ISBE was limited in incorporating this information into our responses.

FINDING 1

The District Charged to Federal Programs Costs that were Inadequately Documented.

- Salaries & wages
- Inadequate documentation of allowability of costs paid to former employee for mentoring
- Not all wages paid to one substitute teacher were documented
- Documentation only supported that one day of a workshop occurred, while payment was made for four days

ISBE Response

- Salaries & wages

ISBE requests that US ED OIG provide ISBE with information identifying the employees in question so that documentation provided by Harvey 152 can be compared to the results stated in the finding. If it is determined that Harvey cannot support charges to Federal programs for the employees' work, ISBE will direct Harvey 152 to return through ISBE funds paid for these employees' salaries to the U.S. Department of Education.

- Inadequate documentation of allowability of costs paid to former employee for mentoring

Harvey 152 presented ISBE with a Mentoring Log describing the daily activities of the mentor referenced in the finding. The Mentoring Log is provided in Attachment K. ISBE finds that this documentation is not adequate to make a determination as to the appropriate charging of the cost of the mentor between Title I and Title II programs. ISBE will direct Harvey 152 to provide a breakdown of the Mentoring Log to indicate the appropriate program to be charged for the mentor's time. Upon receipt of this information, ISBE will evaluate the appropriate charging of the mentor's pay to these programs versus the actual charges made. Based on available funding,

ISBE will direct Harvey 152 to transfer costs between Title I and Title II to appropriately reflect the mentor's time and effort related to each program or to return through ISBE to the U.S. Department of Education any improperly charged costs.

- Not all wages paid to one substitute teacher were documented

ISBE requests that US ED OIG provide ISBE with information identifying the substitute teacher in question so that appropriate documentation can be requested from Harvey 152. Upon receipt of this information, ISBE will verify the number of days worked. If it is determined that Harvey cannot support payment for all 18 days of work, ISBE will direct Harvey 152 to return funds paid for the undocumented days through ISBE to the U.S. Department of Education.

- Documentation only supported that one day of a workshop occurred, while payment was made for four days

Harvey 152 presented ISBE with sign-in sheets documenting the occurrence of curriculum workshops on three days: August 22, 2005, August 23, 2005, and January 17, 2006. It appears that two separate workshops occurred on at least August 23, 2005. The invoice and payment documents as well as these attendance sheets are provided in Attachment A. ISBE requests that US ED OIG provide ISBE with documentation regarding the specific workshops referenced in the finding so that the attendance sheets can be reconciled to this information. Based on the outcome, ISBE will request that Harvey 152 obtain additional documentation supporting the occurrence of any workshops for which attendance sheets were not provided or return funds paid for the undocumented workshop through ISBE to the U.S. Department of Education.

Recommendation 1.1

ISBE direct the District to provide adequate documentation to support the costs or return \$304,134 to the Department.

ISBE Response

ISBE requires additional information from US ED OIG, as noted in the response to Finding 1 above, to determine the need for additional documentation and adequately evaluate the documentation provided by Harvey 152. With this information, ISBE will determine the amount of any inadequately documented charges made to Federal programs and direct Harvey 152 to return these funds through ISBE to the U.S. Department of Education. ISBE is including, as attachments to this response, the documentation provided by Harvey in response to this finding.

Recommendation 1.2

ISBE direct the District to provide after-the-fact periodic certifications and personnel activity reports, signed by employees or supervisors as appropriate, documenting personnel costs charged to the four programs for all employees paid with program funds for the 2005-2006, 2006-2007, and 2007-2008 grant years that were not tested, or return those funds to the Department.

ISBE Response

Harvey 152 presented ISBE with the Time and Effort Certifications for the two months tested and Employee Attendance Verification reports. This documentation is provided in Attachments B and C respectively. ISBE requests that US ED OIG provide ISBE with information identifying the employees in question so that documentation provided by Harvey 152 can be compared to the results stated in the finding. If it is determined that Harvey cannot support charges to Federal programs for the employees' work, ISBE will direct Harvey 152 to return funds paid for these employees salaries through ISBE to the U.S. Department of Education.

ISBE will determine the existence of periodic certifications and personnel activity report for the 2006-2007 and 2007-2008 grant years and will review on a sample basis personnel costs charged to Federal programs for these years.

Recommendation 1.3

ISBE direct the District to Develop and implement policies and procedures for semi-annual certifications of personnel costs for employees working on a single program and monthly personnel activity reports or equivalent documentation supporting personnel costs for employees working on multiple programs.

ISBE Response

Harvey 152 provided ISBE with the document titled Procedure for Time and Effort Report that is included as Attachment D to this response. ISBE will review these procedures with responsible Harvey 152 staff to ensure that processes are in accordance with the requirements of OMB Circular A-87, Attachment B, Section 8(h) Support of Salary and Wages.

Recommendation 1.4

ISBE direct the District to develop and implement written policies and procedures for properly allocating costs to the federal programs and properly train staff on the new procedures.

ISBE Response

ISBE will direct Harvey 152 to develop and implement policies and procedures to ensure that costs are properly allocated to the Federal program to which the cost is associated, in accordance with OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments and to train staff on the appropriate accounting treatment of these costs.

FINDING 2

The District Improperly Allocated Costs to the Programs.

ISBE Response

ISBE agrees that Harvey 152 did not allocate the costs for only Special Education District employees to attend a regional conference to the IDEA, Part B program.

Recommendation 2.1

ISBE direct the District to provide adequate documentation to show the amount charged to the IDEA, Part B, program was an allowable IDEA, Part B, program cost; determine whether the \$6,260 could be considered an allowable Title I, Part A, program cost, and, if so, transfer the amount from the IDEA, Part B program to the Title I, Part A program; if not, return \$6,260 of unallowable costs to the Department.

ISBE Response

Harvey 152 presented a copy of the FY 2006 IDEA, Part B application instructions and the District's IDEA, Part B application in support of allowing the charging of professional development costs of non-special education employees to the IDEA, Part B program. These documents are provided here as Attachment E.

The IDEA, Part B application instructions under Personnel Development Plan states in part:

Participation/Coordination

Describe the extent of participation of various school district personnel groups and parents in the development of the Personnel Development Plan. Include procedures for coordinating the involvement of parents, **general education personnel** and special education personnel with an interest in personnel development planning.

Needs Assessment

(a) The personnel groups needing training (including parents of children with disabilities and **all groups involved with inclusion activities...**

Training

(a) Identify each personnel group to be provided in-service through the plan: special education administrative and instructional personnel, **general education administrative and instructional personnel**, support personnel, parents, aides, and volunteers.

Section 3S of Harvey 152's FY 2006 approved IDEA part B application provides that: "Grant funds will continue to support professional development opportunities. **In district workshops, seminars, and in-services will be offered to special education personnel to address a variety of interests and needs. These activities will be held in collaboration with regular education personnel to meet the needs of the students...**"

In addition, 34 CFR Ch. III (7–1–02 Edition) in § 300.135 Comprehensive system of personnel development states:

(a) General. The State must have in effect, consistent with the purposes of this part and with section 635(a)(8) of the Act, a comprehensive system of personnel development that—

(1) Is designed to ensure an adequate supply of qualified special education, **regular education**, and related services personnel; and

These authoritative documents and Harvey 152’s FY 2006 IDEA, Part B application provide support that professional development activities under IDEA, Part B are not limited to only special education personnel. The concepts of inclusion and least restrictive environment also support the use of IDEA, Part B funding for professional development of non-special education personnel. Therefore, ISBE will not ask Harvey 152 to return \$6,260 related to professional development activities for non-special education personnel paid for with IDEA, Part B funds, unless directed to do so by the U.S. Department of Education, Office of Special Education and Rehabilitative Services.

FINDING 3

The District Maintained Excess Cash.

ISBE Response

ISBE agrees that Harvey 152 maintained excess cash.

ISBE’s *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* (current version web link: http://www.isbe.net/funding/pdf/fiscal_procedure_handbk.pdf; procedures in effect during the audit period are provided in Attachment F) addresses procedures and requirements related to budgets, payment schedules and expenditures (Section C.1), carryover (Section C.2), excess cash on hand (Section C.3), and interest income requirements (Section B.2). The procedures state that “... payments should be requested to meet actual monthly cash needs of the project. All payment requests should be based on the projected date of expenditures.” and “The payment schedule should be submitted based on the actual cash needs of the district... If the payment schedule has been prepared in a reasonable manner, excess cash on hand should not occur.”

In addition, Harvey 152 has received audit findings in their A-133 audits on maintaining excess cash.

ISBE calculated interest on excess cash as follows:

Harvey SD 152
14-016-1520-02
Interest on Excess Cash Balances
Summary of FY 2006, 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Totals</u>
Title I - Low Income	\$ -	\$ 17,780	\$ 8,574	\$ 26,354
Title I - Reading First - 00	587	-	-	587
Title I - Reading First - 07	46	32	-	79
Title II - Teacher Quality	-	1,542	4,621	6,163
Title II-D Technology	101	-	24	125
Title IV Safe & Drug Free School	67	39	40	146
Title V - Innovative	<u>127</u>	<u>35</u>	<u>112</u>	<u>273</u>
	<u>\$ 928</u>	<u>\$ 19,428</u>	<u>\$ 13,370</u>	<u>\$ 33,726</u>

The detailed calculations of imputed interest by fiscal year and program are provided in Attachment G . In these calculations, the payment amounts were obtained from ISBE's Financial Reimbursement Information System (FRIS) Disbursement Detail report which provides the schedule of payments processed by the Illinois Office of the Comptroller. The expenditure amounts were generated by FRIS based on the quarterly expenditure reports submitted by Harvey 152. You will note that the calculation for FY 06 Title I indicates an amount "Recovered A-133". The FY 06 A-133 single audit of Harvey 152 identified the issue of excess cash on hand and reported questioned costs of \$3,900 in imputed interest. Attachment H documents ISBE's request for and Harvey 152's remittance of \$3,900 to ISBE payable to the U.S. Department of Education.

Recommendation 3.1

ISBE direct the District to develop and implement policies and procedures to provide reasonable assurance that the time between drawing down funds and paying for grant activities is minimized.

ISBE Response

ISBE will direct Harvey 152 to develop and implement procedures to more closely align their payment schedules to their estimated actual expenditures to minimize excess cash on hand in accordance with the requirements in 34 C.F.R. section 80 and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*.

In addition, ISBE's Funding & Disbursements Division examined Harvey 152's expenditures compared to their payment schedule requests. To eliminate the prepayment and excess cash on hand, the last two payments for the FY08 Title I project are frozen until the final expenditure report is received. Payments will not be released until the final expenditure is received from

Harvey 152. If necessary, ISBE will take further action to eliminate or minimize excess cash on hand.

Recommendation 3.2

ISBE direct the District to develop and implement policies and procedures to identify all instances of excess federal cash maintained for the 2005-2006, 2006-2007, and 2007-2008 grants years, impute interest, and return that amount to the Department.

ISBE Response

ISBE has identified excess cash on hand and calculated imputed interest for fiscal years 2006, 2007, and 2008, as noted above and provided in Attachment G. Based on this calculation and taking into account the return of \$3,900 in imputed interest related to an FY 06 A-133 audit finding, ISBE will direct Harvey 152 to return \$33,726 through ISBE to the U.S. Department of Education.

FINDING 4

The District Did Not Perform Timely Physical Inventories

ISBE Response

ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* (http://www.isbe.net/funding/pdf/fiscal_procedure_handbk.pdf) requires grant recipients to perform an inventory every two years, to ensure compliance with the requirements of 34 C.F.R. 80.32. The procedure's link above is to the current version of these procedures. Attachment F provides a printed version of these procedures that were in effect during the audit period. (The procedures regarding inventory did not change from the audit period until now). Section C.15 of these procedures require that "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization and continued need for the property."

Harvey 152 provided ISBE with Physical Inventory procedures presented in Attachment I. The procedures indicate Harvey 152's Technology Department will conduct physical inventories for one half of the District's facilities on an alternating yearly basis, thereby covering all inventory over a two year period. In addition, Harvey 152 has provided ISBE with a documentation of a Title I inventory performed in May 2006, which is presented as Attachment J. As of this date, ISBE is unable to determine if this documentation was given to the ED OIG auditors, if this was part of a complete inventory or just technology related equipment, or if this is documentation related to the inventory of half the District's facilities described in the Physical Inventory procedures.

Recommendation 4.1

ISBE direct the District to perform a physical inventory of equipment purchased with grant assets; and

ISBE Response

Harvey 152 has informed ISBE that they are currently negotiating a date for an outside contractor to perform the district's physical inventory. This should occur within the next month. ISBE will request that Harvey 152 provide ISBE with evidence documenting the results of the inventory.

Recommendation 4.2

ISBE direct the District to develop and implement written procedures for performing a physical inventory of property purchased with grant funds at least once every two years.

ISBE Response

The Physical Inventory procedures provided by Harvey 152 in Attachment I indicate Harvey 152's Technology Department will conduct physical inventories for one half of the schools facilities on an alternating yearly basis, thereby covering all inventory over a two year period. ISBE will review these inventory procedures with responsible Harvey 152 staff to ensure that physical inventory processes are in accordance with the requirements of 34 C.F.R. 80.32 and ISBE's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and that the district performs a physical inventory of all items over \$500 purchased with grant assets every two years. In addition, ISBE will clarify with Harvey 152 the relationship between the Physical Inventory procedures and the inventory to be performed by outside contractors.