



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Chicago/Kansas City/Dallas Audit Region

September 23, 2009

Control Number
ED-OIG/A05I0016

Dr. Christopher Koch
State Superintendent
Illinois State Board of Education
100 N. 1st Street
Springfield, Illinois 62777

Dear Dr. Koch:

This **Final Audit Report**, entitled *Illinois State Board of Education's Oversight of Subrecipients*, presents the results of our audit. The objectives of the audit were to determine whether the Illinois State Board of Education (ISBE) had an adequate system of internal control over (1) reviewing and approving applications for and amendments to subgrant applications, (2) providing technical assistance to subrecipients, (3) evaluating the performance of projects based on program requirements, (4) ensuring resolution of Single Audits, and (5) ensuring subrecipient compliance with statutes and regulations governing selected aspects of the Title I, Part A, and the Individuals with Disabilities Education Act (IDEA), Part B, programs. Our audit assessed the adequacy of ISBE's system of internal control as of June 30, 2008.

BACKGROUND

A State educational agency (SEA) is responsible for the distribution of U.S. Department of Education (Department) funds to subrecipients, including local educational agencies (LEA). An SEA is required to monitor supported activities to provide reasonable assurance of each subrecipient's compliance with Federal requirements and the achievement of performance goals. SEAs must have procedures for (1) reviewing and approving applications for and amendments to subgrant applications, (2) providing technical assistance to subrecipients, (3) evaluating the performance of projects, (4) ensuring resolution of Single Audits, and (5) performing other administrative responsibilities that the State has determined are necessary to ensure a subrecipient's compliance with statutes and regulations governing such areas as comparability of services, schoolwide programs, and maintenance of effort.

The Education Department General Administrative Regulations (EDGAR), 34 C.F.R. Part 80,¹ contain provisions requiring States to monitor subrecipients to ensure compliance with applicable Federal requirements. In addition to EDGAR, there are program-specific requirements that require SEA officials to monitor formula grant subrecipients.

The Title I, Part A, program of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by Public Law 107-110, provides financial assistance through SEAs to LEAs to help ensure that all children meet State academic standards.

The IDEA, as amended by the Individuals with Disabilities Education Improvement Act Amendments of 2004 (Public Law 108-446), was enacted to ensure that all children with disabilities have available to them a free and appropriate public education and to ensure that the rights of children with disabilities and their parents are protected. IDEA, Part B, is a formula grant program that provides assistance to States, and through them to LEAs, to assist States and localities in their efforts to provide special education and related services to children with disabilities.

From fiscal year 2008 appropriations, ISBE allocated approximately \$560 million in Title I, Part A, program funds to 806 LEAs. In addition, ISBE allocated approximately \$423 million in IDEA, Part B, program funds to 874 LEAs or 114 Cooperatives (Coop).² With the enactment of the American Recovery and Reinvestment Act of 2009 (ARRA), Congress dramatically increased SEA and LEA funding and expectations for transparency and accountability in how the funding is used.³ The State of Illinois will receive approximately \$3.1 billion in additional education-related funding under ARRA.

AUDIT RESULTS

As of June 30, 2008, ISBE had an adequate system of internal control over (1) reviewing and approving applications for and amendments to subgrant applications, (2) providing technical assistance to subrecipients, (3) evaluating the performance of projects based on program requirements, and (4) ensuring resolution of Single Audits. However, ISBE could strengthen its system of internal control over ensuring subrecipient compliance with statutes and regulations governing selected aspects of the Title I, Part A, and IDEA, Part B, programs.

¹ All C.F.R. references are to the July 1, 2004, edition unless otherwise noted.

² A Coop is an administrative agency that administers IDEA, Part B, funds for two or more LEAs which report to it under a joint agreement.

³ See <http://www.ed.gov/policy/gen/leg/recovery/index.html> for more information on education-related funding included in ARRA.

We concluded that certain aspects of ISBE's system of internal control were adequate because ISBE had a system in place to provide reasonable assurance that:

1. grant applications were reviewed and approved through its Electronic Grants Management System;
2. on-going technical assistance was provided to grant applicants on issues related to the programs, and instruction and guidance were provided to subrecipients through either training or responding to LEAs' questions;
3. the performance of Title I, Part A, programs was regularly evaluated by ISBE's External Assurance Division, and the performance of IDEA, Part B, programs was regularly evaluated by ISBE's Special Education Division; and
4. resolution of Single Audits included ensuring that ISBE determined corrective action plans resulting from the audit findings and started the recovery of questioned costs, if any, within a 6-month period from receipt of the A-133 Single Audit report.

We provided a draft of this report to ISBE for review and comment on May 22, 2009. We received ISBE's comments, along with additional documentation, on July 10, 2009. In its comments, ISBE disagreed that there was not an effective process in place to monitor an LEA's compliance with Title I, Part A, Comparability of Service (comparability) requirements. ISBE agreed that its processes could be strengthened and has taken steps to ensure compliance with schoolwide requirements. ISBE also generally agreed that its processes to ensure compliance with IDEA, Part B, Maintenance of Effort (MOE) requirements could be strengthened.

Based on our review of ISBE's comments and the additional documentation provided, we clarified our finding and changed recommendation 1.2. ISBE's comments are summarized at the end of the finding. The full text of ISBE's comments is included as an Attachment to this report.

FINDING – ISBE Could Strengthen Its System of Internal Control over Ensuring Subrecipient Compliance with Title I, Part A, and IDEA, Part B, Program Requirements

ISBE could strengthen its system of internal control over ensuring subrecipient compliance with statutes and regulations governing selected aspects of the Title I, Part A, and IDEA, Part B, programs. During the audit period, ISBE did not always ensure that (1) Chicago Public Schools (CPS) complied with the Title I, Part A, comparability requirements; (2) LEAs complied with the Title I, Part A, schoolwide requirements; and (3) subrecipients complied with the IDEA, Part B, MOE requirements. According to 34 C.F.R. § 80.40(a), grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and achievement of performance goals. Grantee monitoring must cover each program, function, or activity.

ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of CPS's Compliance with the Title I, Part A, Comparability Requirements

ISBE's monitoring process generally provided reasonable assurance that LEAs complied with the Title I, Part A, comparability requirements. However, ISBE did not always follow its comparability process. To test ISBE's system of internal control over monitoring subrecipients' compliance with Title I, Part A, comparability requirements, we selected a random sample of 9 of 783 LEAs that were required to submit comparability reports and judgmentally selected CPS because of prior U.S. Department of Education, Office of Inspector General (OIG) audit findings. We traced ISBE's receipt and review of the comparability calculations. Because ISBE did not identify any of the nine randomly selected LEAs as non-compliant, we judgmentally selected two additional LEAs so that we could review ISBE's entire process for monitoring compliance with comparability requirements. We selected the Dolton and Ridgeview LEAs because ISBE's monitoring processes disclosed that both districts did not comply with the Title I, Part A, comparability requirements.

Although we did not find any problems with ISBE's monitoring of the nine randomly selected LEAs' compliance with the comparability requirements, we concluded that ISBE continued to have weaknesses in its oversight of CPS' compliance with the comparability requirements, and ISBE did not follow its established processes after it identified the Ridgeview LEA's non-compliance issues.

- ISBE did not cite CPS for not complying with the comparability requirements and did not determine the amount of CPS' Title I, Part A, funding that should have been withheld or repaid as a result of CPS not meeting comparability for fiscal year 2008.⁴ ISBE did not cite CPS for continuously having non-comparable schools or for including longevity in its 2008 comparability calculations. CPS had 21 non-comparable schools in its initial comparability calculation for fiscal year 2008. To make the schools comparable, CPS allocated just enough funds (totaling approximately \$1.6 million) to each of the non-comparable schools to make them comparable. However, CPS expensed only approximately \$955,000 of the allocated funds in fiscal year 2008. CPS informed ISBE that the allocated funds not expended in fiscal year 2008 would be carried into the 2009 fiscal year budget. Although CPS planned to carry over those amounts to the next fiscal year, some of the students from fiscal year 2008 would not receive services from those funds. Because CPS did not expense the amount of funding needed for comparability, 20 of the 21 schools remained non-comparable. The 20 non-comparable schools were \$667,876 short of compliance with the Title I, Part A, comparability requirement.
- ISBE discovered that CPS included longevity for staff salary differentials for years of employment in its 2008 comparability calculations. ISBE officials instructed CPS to recalculate its comparability without longevity. However, CPS officials informed ISBE that its accounting system prevented the recalculation of comparability without longevity. ISBE did not cite CPS for reporting the inaccurate comparability data.

⁴ July 1, 2007, through June 30, 2008.

Instead, ISBE concluded that the process for CPS to remove longevity pay from its salary expenditures would be difficult.⁵ Though ISBE was aware of CPS' present and past inability to meet the comparability requirements, it did not cite CPS for its non-compliance in either case.

- ISBE did not follow its established process for another LEA and incorrectly lifted a freeze order placed on that LEA's Title I, Part A, funds. The Ridgeview LEA did not submit a comparability calculation to ISBE. In response to this issue and another Title I, Part A, issue, ISBE froze Ridgeview's Title I, Part A, funds. However, ISBE mistakenly lifted the freeze order when the other Title I, Part A, issue was resolved even though the comparability issue was unresolved. This resulted in the reinstatement of Ridgeview's Title I, Part A, funding when its funds should have remained suspended. When we informed ISBE of the mistake, it reestablished the freeze order on Ridgeview's Title I, Part A, funds.

Title I, Part A, Section 1120A(c)(1)(A), of the ESEA states that an LEA "may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part." In addition, Title I, Part A, Section 1120A(c)(2)(B), states that, "in the determination of expenditures per pupil from state and local funds, or instructional salaries per pupil from state and local funds, staff salary differentials for years of employment shall not be included in such determinations." According to ISBE's 2008 Fiscal Year *Title I Comparability Instructions*, if a school is not comparable, the LEA should develop and submit to ISBE written procedures explaining how the LEA will achieve comparability. LEAs must use their written procedures to correct the imbalance and submit documentation to this effect. LEAs should also revise their comparability calculations and resubmit them to ISBE. If an LEA is found to be out of compliance with the comparability requirements, a portion of the LEA's Title I, Part A, funds must be withheld by ISBE or repaid by the LEA, in the amount the LEA was found to be out of compliance.

By not adequately monitoring its LEAs' compliance with the Title I, Part A, comparability requirements, ISBE was not able to demonstrate whether CPS and Ridgeview used State and local funds to provide services in Title I schools that were at least comparable to services provided in non-Title I schools in fiscal year 2008. As a result, the children at the 20 non-comparable schools within CPS might not have had a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on State academic achievement standards and State academic assessments.

⁵ We first addressed CPS' comparability problems in our June 7, 2007, audit report, entitled *Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement* (A05G0033). This report outlined ISBE's inadequate control environment that allowed schools within CPS that were previously identified as non-comparable to remain non-compliant. ISBE's inadequate control environment allowed CPS to include unfilled, full-time equivalent employee positions in its comparability calculations.

ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of Subrecipients' Compliance with Title I, Part A, Schoolwide Requirements

ISBE did not have an effective process in place to provide reasonable assurance that an individual school's comprehensive plan for its schoolwide program contained the required components. We chose a random sample of 10 schoolwide plans to review; ISBE obtained from the schools and provided us with only 7 of the schoolwide plans from the LEAs.⁶ Five of 7 schoolwide plans did not contain all 10 of the required components, and, therefore, the plans were not in compliance. ISBE previously had reviewed the schoolwide plans for 2 of these 5 schools, and its review resulted in no findings.

Title I, Part A, Section 1114(b)(1) states that a comprehensive needs assessment of the entire school shall be included as a component of the schoolwide program. Title I, Part A, Section 1114(b)(2)(A) states that any eligible school that desires to operate a schoolwide program shall first develop a comprehensive plan for reforming the total instructional program in the school. Although not mandatory, the Department's *Non-Regulatory Guidance-Title I Fiscal Issues: Maintenance of Effort, Comparability, Supplement Not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements* (February 2008), states that, at the SEA-level, monitoring protocols should include both a programmatic and budget review for a school operating a schoolwide program. The programmatic monitoring should include a review of the proposed activities, how these activities address issues identified in the needs assessment through the required plan components, and the research base that indicates these activities will lead to improved student achievement.

ISBE did not have assurance that schools implemented comprehensive plans for schoolwide programs that complied with Federal requirements. This lack of assurance could have led to inefficient use of Title I, Part A, funds and the potential for a schoolwide program to not have its intended outcome—improving the entire school's academic level.

ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of Subrecipients' Compliance with IDEA, Part B, Maintenance of Effort Requirements

ISBE did not have an effective monitoring process in place to review IDEA, Part B, local-level MOE calculations. ISBE did not verify data, such as the number of special education pupils, expenditures, and formulas, used in local-level IDEA, Part B, MOE calculations during its monitoring review process.

We recalculated local-level MOE calculations for a random sample of 10 of 114 entities that received IDEA, Part B, funds for fiscal year 2008. The 10 entities consisted of 4 self-reporting LEAs and 6 Coops serving 48 LEAs. In all, we reviewed calculations for 52 LEAs that were either self-reporting LEAs or LEAs that reported under a Coop and 6 Coops, a total of 58

⁶ One school did not respond to ISBE's request to provide its schoolwide plan, one school was no longer in existence, and one school responded to ISBE that it was participating in a targeted assistance program, not in a schoolwide program.

entities. Thirteen of the 58 entities (22 percent) had errors in their MOE calculations. In addition, 16 individual LEAs (31 percent) and 1 Coop did not meet the MOE requirements.⁷

If an LEA did not meet MOE requirements, ISBE required each LEA (regardless of whether it is a self-reporting LEA or an LEA reporting under a Coop) to provide rationale for why it did not meet MOE requirements. Only 8 of the 16 LEAs (50 percent) that did not meet MOE provided ISBE with rationale of why it did not meet MOE requirements. However, ISBE did not maintain documentation to show that it reviewed and accepted the rationale.

According to 34 C.F.R. § 300.203(b)(1),⁸ to establish the LEAs' eligibility for the fiscal year award—

the SEA must determine that an LEA complies with paragraph (a) of this section for purposes of establishing the LEA's eligibility for an award for a fiscal year if the LEA budgets, for the education of children with disabilities, at least the same total or per capita amount from either of the following sources as the LEA spent for that purpose from the same source for the most recent prior year for which information is available.

In addition, 34 C.F.R. § 300.203(a) requires the SEA to ensure that funds provided to an LEA under IDEA, Part B, “not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.” According to 34 C.F.R. § 300.204, an LEA may reduce the level of expenditures by the LEA under IDEA, Part B, below the level of those expenditures for the preceding fiscal year if the reduction is attributable to certain allowable exceptions as listed in the regulations. According to 34 C.F.R. § 300.205, “for any fiscal year for which the allocation received by an LEA under Sec. 300.705 exceeds the amount the LEA received for the previous fiscal year, the LEA may reduce the level of expenditures otherwise required by Sec. 300.203(a) by not more than 50 percent of the amount of that excess.”

According to 34 C.F.R. § 300.222(a)—

If the SEA, after reasonable notice and an opportunity for a hearing, finds that an LEA or state agency that has been determined to be eligible under this subpart is failing to comply with any requirement described in §§ 300.201 through 300.213, the SEA must reduce or must not provide any further payments to the LEA or state agency until the SEA is satisfied that the LEA or state agency is complying with that requirement.

ISBE developed a spreadsheet in which the LEAs and Coops entered their MOE data. Formulas within the LEAs' and Coops' calculations were not protected and could be manipulated by the entities. Because ISBE did not confirm that data entered by the entities in the local-level MOE calculations were correct, LEAs and Coops were able to calculate incorrect amounts on their

⁷ The Department currently is developing guidance on whether the regulations allow for an LEA within a Coop to be out of compliance as long as the Coop meets the MOE requirements.

⁸ The regulations used for IDEA, Part B, MOE, were revised as of August 14, 2006.

local-level MOE calculations, and ISBE could not ensure that the entities met MOE requirements for fiscal year 2008. If the entities did not maintain the required local-level of effort, children with disabilities residing in Illinois might not have had available to them all the special education and related services needed to ensure a free appropriate public education. Therefore, for every fiscal year that ISBE did not adequately monitor MOE, ISBE might have awarded, and the LEAs or Coops, or both, might have received, Federal funds under IDEA, Part B, for which the subrecipients were not eligible.

Adequate Staffing Levels and Improved Procedures Needed to Improve Oversight of Compliance and Improve Services to At-risk Children

ISBE does not have adequate staffing levels to monitor subrecipient compliance with the Title I, Part A, comparability and schoolwide program requirements. Prior to fiscal year 2008, ISBE's External Assurance Division⁹ did not have any full-time, on-site monitors at CPS. Although ISBE recently hired two full-time, on-site monitors at CPS, the staffing level still might be inadequate as the monitors are newly hired and behind schedule in their monitoring duties.

Also, despite numerous requests to increase its budget, ISBE's External Assurance Division's overall staffing level decreased from an average of 27 employees during calendar year 2006 to an average of 20 employees during calendar year 2008.¹⁰ As a result, the division's planned and completed monitoring reviews decreased from 2006 to 2008. In fiscal year 2006, the division completed 592 of 600 (99 percent) planned monitoring reviews. In fiscal year 2008, the division completed only 421 of 728 (58 percent) planned monitoring reviews. In addition, the External Assurance Division was unfamiliar with the requirement that each school participating in the schoolwide program must have a unique plan. External Assurance Division officials stated that they might sometimes review a consolidated, comprehensive plan for schoolwide programs that covers multiple schools in an LEA. However, Title I, Part A, Section 1114(b)(2)(A), states that each school must have its own plan. In addition to inadequate staffing levels, ISBE's monitoring review procedures did not include steps to verify local-level IDEA, Part B, MOE data reported by LEAs. Instead, ISBE relied solely on the LEAs' independent public auditors to verify the expenditure data during the Annual Financial Report (AFR) process.

ISBE's inadequate system of internal control over LEA monitoring placed Department funds for the Title I, Part A, and IDEA, Part B, programs at risk of misappropriation and might have affected the efficiency and effectiveness of the programs. Furthermore, disadvantaged children (either financially or developmentally) might not have received the services needed to obtain a fair, equal, and significant opportunity for an appropriate education. With the additional funds being provided to the State of Illinois under ARRA and expectations for transparency and accountability in how the funding is used, it is crucial that ISBE improve its oversight of subrecipients' compliance.

⁹ The External Assurance Division assists with the monitoring of the Title I, Part A, programs.

¹⁰ We calculated an average staffing level because of the constant fluctuations of staffing within the External Assurance Division. To calculate the average staffing level, we added the total staffing level for each month and divided by 12. Staff calculations include management and support staff for data ISBE had available. We also noted that ISBE hired seven new employees in calendar year 2008.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require ISBE to—

- 1.1 Return \$667,876, which represents the amount by which CPS did not comply with the Title I, Part A, comparability requirement during fiscal year 2008.
- 1.2 Ensure that CPS complies with the Title I, Part A, comparability requirements.
- 1.3 Amend its procedures for ensuring that (a) LEAs required to submit revised comparability reports because of reporting errors do so in a timely manner, and (b) LEAs implement corrective actions.
- 1.4 Cite LEAs that do not comply with the comparability requirements and determine the amount of Title I, Part A, funding to be withheld or repaid.
- 1.5 Assign a sufficient number of employees to the External Assurance Division to assist with the monitoring of LEAs' compliance with the requirements of Federal programs.
- 1.6 Provide ISBE monitoring staff, LEAs, and schools with written guidance on the specific requirements for comprehensive schoolwide plans.
- 1.7 Develop and implement policies and procedures to ensure coordination and participation, if needed, between ISBE Title I, Part A, schoolwide monitoring staff and External Assurance Division monitoring staff when reviewing a comprehensive plan for a schoolwide program for compliance with the specific requirements.

We also recommend that the Assistant Secretary for Special Education and Rehabilitative Services require ISBE to—

- 1.8 Develop and implement policies and procedures to:
 - a. annually verify the accuracy of the local-level MOE data;
 - b. provide reasonable assurance that entities report accurate and complete special education budget and expenditure data needed to ensure that, on a total or per capita basis, financial support for special education and related services for children with disabilities meets the IDEA, Part B, local-level MOE requirements; and
 - c. determine whether the LEAs and Coops meet one or more of the exceptions to MOE under 34 C.F.R. §§ 300.204 and 300.205, or both, and provide them a written response.
- 1.9 Recalculate local-level MOE calculations according to IDEA, Part B, requirements for fiscal year 2008 and report the revised MOE levels to the Department. If any of the entities did not meet MOE based on its recalculation, ISBE should pay to the Department the amount of that entity's IDEA, Part B, grant for that fiscal year. ISBE must pay this

amount from non-Federal funds or Federal funds for which accountability to the Federal government is not required.

ISBE Comments and OIG Response

ISBE partially concurred with our finding. ISBE disagreed that there was not an effective process in place to monitor an LEA's compliance with Title I, Part A, comparability requirements, but agreed that processes could be strengthened and has taken steps to ensure compliance with schoolwide requirements. ISBE also generally agreed that processes can be strengthened to ensure compliance with IDEA, Part B, MOE requirements.

Title I, Part A, Comparability of Services Requirements

ISBE Comments: ISBE disagreed that it did not have an effective process in place to monitor LEAs' compliance with Title I, Part A, comparability requirements. ISBE stated that it has spent considerable time working with CPS in developing CPS's capacity for and reporting of Title I comparability status annually, and for fiscal year 2008 in particular. ISBE stated that, when an LEA demonstrates a willingness to work with ISBE and is responsive to requests or warnings, it does not feel that it is beneficial to automatically freeze that LEA's funds. Rather, consideration was given to the steps being taken by the LEA to achieve compliance and its readiness to discuss and resolve the issues. ISBE did not feel it was appropriate to sanction CPS while it was still working with ISBE to meet comparability requirements.

ISBE agreed that teacher's salaries used in the CPS comparability calculations included longevity pay. ISBE stated that there is not a simple solution to calculate comparability without longevity pay but will continue to work with CPS to determine an acceptable resolution to this issue. ISBE noted that the inclusion of longevity pay is not detrimental to Title I schools. The amount of longevity pay would be larger for non-Title I schools than Title I schools, thus requiring additional local funding dollars for Title I schools to meet comparability. ISBE continued to say that, with regard to CPS' inclusion of longevity pay in determining comparability, CPS provided an analysis of a group's comparability determinations with and without longevity pay. The analysis with longevity pay resulted in a larger required per pupil expenditure of local funds than when longevity pay was excluded. Thus, ISBE concluded that the exclusion of longevity pay resulted in reduced local funding levels to achieve comparability.

ISBE acknowledged that an error occurred with the release of Ridgeview's Title I, Part A, program funds. Since this occurred, ISBE has revised its procedures for freezing and releasing funds to ensure that all division requests for freezing funds are honored.

OIG Response: The SEA is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirements. As is stated in the Department's non-regulatory guidance on Title I fiscal issues, "[d]emonstrating comparability is a prerequisite for receiving Title I, Part A, funds." In addition, according to 34 C.F.R. § 80.40(a), "[g]rantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that the performance goals are being achieved."

According to ISBE's 2008 Fiscal Year *Title I Comparability Instructions*, if an LEA is found to be out of compliance with the comparability requirements, a portion of the LEA's Title I, Part A, funds must be withheld by ISBE or repaid by the LEA, in the amount the LEA was found to be out of compliance. The Department's non-regulatory guidance also states that an LEA must perform the calculations necessary every year to demonstrate that all of its Title I schools are in fact comparable and make adjustments if any are not. The comparability process must enable an LEA to identify, and correct during the current school year, instances in which it has non-comparable schools. An early determination of comparability would allow an LEA to make adjustments with the least amount of disruption.

We determined that ISBE continues to have weaknesses in its oversight of CPS' compliance with the comparability requirements. ISBE has continuously allowed CPS to ignore Federal laws and regulations and even ISBE's own policies. While we understand ISBE's reluctance to freeze an LEA's funds, it should not continue to grant CPS waivers from complying with Federal Title I, Part A, comparability requirements from year-to-year.

ISBE agreed that teacher's salaries used in the CPS comparability calculations included longevity pay. With regard to CPS' inclusion of longevity pay in determining comparability, CPS provided us with an analysis of a group's comparability determinations with and without longevity pay. ISBE came to the conclusion that the exclusion of longevity pay results in reduced local funding levels to achieve comparability.

We do not disagree with ISBE's conclusion that the exclusion of longevity pay results in reduced local funding level to achieve comparability. The longevity pay provision was first added to the comparability provision in 1994 when Title I was reauthorized by the Improving America's Schools Act. There is no legislative history with respect to the longevity pay provision to indicate why Congress added the requirement. However, the law and ISBE's own instructions to LEAs are clear that the comparability calculations should exclude longevity pay. Title I, Part A, Section 1120A(c)(2)(B), states that staff salary differentials for years of employment shall not be included in comparability determinations. In addition, ISBE's Comparability Instructions state that "the total amount of state and local funds spent on salaries for the staff members... less the amount of such salaries based on length of service (longevity/salary differentials)" should be included in calculation. If CPS cannot remove longevity pay from its salary expenditure data to use in determining its comparability status, the LEA is not complying with the Federal Title I, Part A, comparability requirements and is not following ISBE's own comparability process.

Title I, Part A, Schoolwide Requirements

ISBE Comments: ISBE agreed that its processes can be strengthened and has taken steps to ensure compliance with schoolwide requirements. ISBE has redesigned its processes related to schoolwide programs, developed training programs, and provided technical assistance to the field. In addition, ISBE has created an e-Bulletin to address the schoolwide compliance issue and is creating a schoolwide webpage. The External Assurance Division has improved its No Child Left Behind (NCLB) monitoring tool to include verification of the 10 specific components of a schoolwide program to ensure the schoolwide plans they review are compliant.

IDEA, Part B, Maintenance of Effort Requirements

ISBE Comments: ISBE agreed that its processes could be strengthened to ensure subrecipient compliance with IDEA, Part B, MOE requirements. Recognizing the multiple differences in over 800 LEAs in the State, ISBE created a tool by which each LEA could report its unique revenue sources and expenditures. ISBE developed an Excel worksheet that could be adapted to the needs of the LEA to report MOE to ISBE. To allow for variability, the Excel worksheet currently in use does not utilize cell protection. To eliminate the variables inherent in this process, ISBE is working to develop a process whereby LEA MOE data is extracted from an LEA's audited Annual Financial Report (AFR). Because there is significant variation in the administration of special education at the LEA level, it is a challenge to find a process that will accurately report these special education expenditures. ISBE is committed to develop a process that will eliminate the occurrence of errors at the local level. It is estimated that development of this process will be completed during fiscal year 2010. This system to extract the financial data from the AFR and determine whether MOE has been met will resolve the issues noted by the auditor regarding cell protection and accuracy.

While ISBE agreed that processes could be strengthened, it did not agree that it is required to calculate MOE for LEAs that are part of a Coop. ISBE stated that, in Illinois, eligible grant applicants consist of either LEAs that provide their own special education services or joint agreements (Coops) that provide special education services to member districts. When an LEA is a member of a Coop, the grant agreement is between ISBE and the Coop, not the LEA. It is the Coop's responsibility to determine that their member LEAs have met the MOE requirement. Thus, ISBE has required Coops to report only the combined total MOE for all member districts. The issues identified by the auditors related to MOE calculation or compliance were generally part of a Coop. The system to extract the financial data from the AFR, discussed above, will make MOE determinations for all LEAs, including those that are part of a Coop, and should resolve the issues noted by the auditor.

OIG Response: Federal regulations [34 C.F.R. § 300.203(a)] clearly state that the LEA must meet MOE and do not make mention of "entities," "joint agreements," or "Coops." Furthermore, if an LEA does not meet MOE requirements, ISBE requires each LEA (regardless of whether it is a self-reporting LEA or an LEA reporting under a Coop) to provide rationale for why it did not meet MOE requirements. Therefore, ISBE needs to ensure that all LEAs (either individually or part of a Coop) meet MOE requirements.

Recommendation 1.1

Return \$667,876, which represents the amount by which CPS did not comply with the Title I, Part A, comparability requirement during fiscal year 2008.

ISBE Comments: ISBE stated that it is still awaiting a program determination from the Department's, Office of Elementary and Secondary Education, on the audit *Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement* (A05G0033), as it relates to the appropriate corrective action to take in sanctioning CPS for not meeting comparability requirements in previous years. ISBE indicated that it appears

recommendation 1.1 is utilizing the approach ISBE suggested in requiring CPS to return only the portion of Title I, Part A, funds by which the schools were non-comparable. CPS has requested not to return the \$667,876. CPS asked that it be allowed to convert the funds provided for comparability positions that were not filled for the schools to support the instructional program. The funds would be utilized for professional development, instructional supplies and materials, and other instructional expenses.

OIG Response: Title I, Part A, Section 1120A(c)(1)(A), of the ESEA states that an LEA may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Meeting comparability requirements is the prerequisite to receiving any Title I, Part A, funds and, therefore, the CPS schools identified as non-comparable were not entitled to receive any of those funds. [*Non-Regulatory Guidance, Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; Grantback Requirements* (May 2006)] While the ESEA and guidance indicate that an LEA should not receive Title I funds if its schools are not comparable, we only recommended the return of funds in the amount or percentage by which CPS failed to comply with the comparability requirement. In this instance, we recommended ISBE return the amount of funding CPS did not expense to the 20 non-comparable schools needed for comparability (\$667,876). In addition, some of the funds that ISBE requested CPS be allowed to convert to support the instructional program may be past the period of availability. We did not change Recommendation 1.1.

Recommendation 1.2

Ensure that CPS complies with the Title I, Part A, comparability requirements.

ISBE Comments: ISBE stated that it is unclear on the need to reevaluate all LEAs' fiscal year 2008 comparability determinations. ISBE stated that considerable time and effort would be required to remove longevity pay from salary data used in calculating comparability determinations. With regard to CPS' inclusion of longevity pay in determining comparability, ISBE provided an analysis of a group's comparability determinations with and without longevity pay, respectively. The determination with longevity pay resulted in a greater required per pupil expenditure of local funds (salaries only) for Title I schools to be determined comparable. When longevity pay is excluded, the per pupil expenditure amount of local funds is reduced to achieve comparability. Thus, the exclusion of longevity pay results in reduced local funding levels to achieve comparability.

OIG Response: Title I, Part A, Section 1120A(c)(2)(B), states that, "staff salary differentials for years of employment shall not be included in such determinations." In addition, ISBE's own Comparability Instructions state that "the total amount of state and local funds spent on salaries for the staff members... less the amount of such salaries based on length of service (longevity/salary differentials)" should be included in the calculation. If CPS cannot remove longevity pay from its salary expenditure data to use in determining its comparability status, the LEA is not complying with the Federal Title I, Part A, comparability requirements and is not following ISBE's comparability process. In response to ISBE's comments, we modified

Recommendation 1.2 by recommending that ISBE ensure CPS complies with the Title I, Part A, comparability requirements, removing the recommendation for ISBE to reevaluate all LEAs' fiscal year 2008 comparability determinations.

Recommendation 1.3

Amend its procedures for ensuring that (a) LEAs required to submit revised comparability reports because of reporting errors do so in a timely manner, and (b) LEAs implement corrective actions.

ISBE Comments: ISBE amended its Title I Comparability Instructions to provide directions for submitting revised comparability reports, with a time-frame and corrective actions.

Recommendation 1.4

Cite LEAs that do not comply with the comparability requirements and determine the amount of Title I, Part A, funding to be withheld or repaid.

ISBE Comments: ISBE responded that it froze or withheld funding for 28 districts during fiscal year 2009. All 28 have since complied with comparability requirements and the funds were released. In response to our comparability finding within this report, ISBE stated that

When a district demonstrates a willingness to work with ISBE and is responsive to requests or warnings, ISBE does not feel it is beneficial to automatically freeze that district's funds. Rather, consideration is given to the steps being taken by the district to achieve compliance and their readiness to discuss and resolve the issues. ISBE did not feel it was appropriate to sanction CPS while the district was still working with ISBE to meet comparability requirements.

OIG Response: ISBE needs to implement the recommendation for all LEAs, including CPS. ISBE should not keep granting CPS a waiver from complying with Federal Title I, Part A, comparability requirements from year-to-year.

Recommendation 1.5

Assign a sufficient number of employees to the External Assurance Division to assist with the monitoring of LEAs' compliance with the requirements of Federal programs.

ISBE Comments: Seven new positions have been included in ISBE's budget request to the General Assembly over fiscal years 2008, 2009, and 2010. State budget constraints and the current economic climate reduce the probability that additional staff will be forthcoming. ISBE recognizes that External Assurance Division staffing levels have not been sufficient to provide adequate coverage of subrecipient compliance with Federal grant requirements. Four outstanding vacancies are being filled in August 2009; the division will then have 25 total staff. As noted in the finding, ISBE has constantly requested increased staffing levels for the External Assurance Division, without success. ISBE acknowledges that the monitoring plan will be

difficult to accomplish with current staff; however, the current economic environment makes it unlikely that additional appropriations for staff will be forthcoming. ISBE is considering contracting externally for monitoring activities related to certain American Recovery and Reinvestment Act funds.

OIG Response: Although ISBE has increased its current staffing levels, we believe ISBE would benefit if it hired more staff for its External Assurance Division, especially in light of the additional ARRA funding being made available to Illinois LEAs. Therefore, we did not change the recommendation.

Recommendation 1.6

Provide ISBE monitoring staff, LEAs, and schools with written guidance on the specific requirements for comprehensive schoolwide plans.

ISBE Comments: ISBE stated that it has redesigned its schoolwide process, developed training programs, and provided technical assistance to the field to address the recommendation.

Recommendation 1.7

Develop and implement policies and procedures to ensure coordination and participation, if needed, between ISBE Title I, Part A, schoolwide monitoring staff and External Assurance Division monitoring staff when reviewing a comprehensive plan for a schoolwide program for compliance with the specific requirements.

Recommendation 1.8

Develop and implement policies and procedures to (a) annually verify the accuracy of the local-level MOE data; (b) provide reasonable assurance that entities report accurate and complete special education budget and expenditure data needed to ensure that, on a total or per capita basis, financial support for special education and related services for children with disabilities meets the IDEA, Part B, local-level MOE requirements; and (c) determine whether the LEAs and Coops meet one or more of the exceptions to MOE under 34 C.F.R. §§ 300.204 and 300.205, or both, and provide them a written response.

ISBE Comments (1.7 and 1.8): ISBE stated that its Grants and Programs, Special Education Services, and External Assurance Division will work together to ensure that subrecipient monitoring processes adequately encompass qualitative programmatic review of compliance requirements and verification of data used in LEA MOE calculations. ISBE's review of oversight and monitoring practices from an agency-wide perspective will include an analysis of ways to better integrate the review of programmatic and fiscal compliance when performing subrecipient monitoring.

Recommendation 1.9

Recalculate local-level MOE calculations according to IDEA, Part B, requirements for fiscal year 2008 and report the revised MOE levels to the Department. If any of the entities did not meet MOE based on its recalculation, ISBE must pay to the Department the amount of that entity's IDEA, Part B, grant for that fiscal year. ISBE must pay this amount from non-Federal funds or Federal funds for which accountability to the Federal government is not required.

ISBE Comments: ISBE stated that it will recalculate local-level MOE calculations for a random sample of LEAs that received IDEA, Part B, funds for fiscal year 2008. In addition, ISBE will continue to remedy problems in local-level MOE calculations that were identified in the draft of this audit report. If any of the LEAs did not meet the MOE requirements, ISBE will follow all applicable rules and regulations.

OIG Response: Although ISBE will recalculate local-level MOE calculations for a random sample of LEAs that received IDEA, Part B, funds for fiscal year 2008, ISBE did not indicate whether it would expand its sample if it found a large number of LEAs that did not meet MOE. Therefore, we recommend that ISBE recalculate all local-level MOE calculations due to the high error rate we found during our testing.

OTHER MATTERS

ISBE did not use accurate data to complete its State-level IDEA, Part B, MOE calculation. ISBE used State funds disbursed to entities to complete the calculation. However, some entities did not expense their entire disbursement; therefore, ISBE recovered those funds and should not have included the recovered amounts in the State-level MOE calculation. We obtained documentation to determine how much of the fiscal year 2006 and fiscal year 2007 disbursements that ISBE recovered from its entities and recalculated the IDEA, Part B, State-level MOE calculation. We concluded that ISBE still met the State-level MOE requirement. Although ISBE inadvertently met the State-level MOE requirement, it might not always meet MOE in the future using the current process.

According to 34 C.F.R. § 300.163(a), a State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year. According to 34 C.F.R. § 300.163(b), the Secretary may reduce the allocation of funds for any fiscal year following the fiscal year in which the State fails to comply with the MOE requirement. The reduction would equal the same amount by which the State fails to meet the requirement.

ISBE's use of State funds disbursed to entities to complete its State-level MOE calculation resulted in ISBE overstating its fiscal years 2006 and 2007 State funding in the calculation. If

ISBE does not maintain the level of effort required, children with disabilities residing in Illinois may not have available to them all services needed to ensure a free appropriate public education.

ISBE agreed with our conclusion and stated that it has implemented the needed changes to its subsequent year's State-level MOE calculation. However, we have not reviewed the revised process to ensure accuracy and compliance with requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether ISBE had an adequate system of internal control over (1) reviewing and approving applications for and amendments to subgrant applications, (2) providing technical assistance to subrecipients, (3) evaluating the performance of projects based on program requirements, (4) ensuring resolution of Single Audits, and (5) ensuring subrecipient compliance with statutes and regulations governing selected aspects of the Title I, Part A, and IDEA, Part B, programs. Our audit assessed the adequacy of ISBE's system of internal control as of June 30, 2008. To test whether ISBE took corrective actions and other follow-up activities, we reviewed prior year's data.

To achieve our objectives, we performed the following procedures.

1. Obtained funding, disbursement, and expenditure data for the Title I, Part A, and IDEA, Part B, programs for ISBE and its LEAs for the period July 1, 2007, through June 30, 2008.
2. Reviewed selected provisions of the laws, regulations, Department guidance, OMB Circular, or grant agreement, relevant to the audit objectives.
3. Gained an understanding of issues and findings disclosed in previous audits and reviews conducted by the U.S. Department of Education's Office of Elementary and Secondary Education and OIG, Independent Public Auditor, and the State of Illinois Auditor General that could impact the audit objectives and determined whether corrective actions were implemented.
4. Identified key ISBE personnel responsible for (a) reviewing and approving applications for and amendments to subgrant applications; (b) providing technical assistance to subrecipients; (c) evaluating the performance of projects; (d) ensuring resolution of Single Audits; and (e) ensuring subrecipient compliance with statutes and regulations governing selected aspects of the Title I, Part A, comparability and schoolwide programs; IDEA, Part B, MOE; and Single Audit resolution and determined the scope of authority for each key staff member.
5. Assessed ISBE's internal control policies and procedures in place as of June 30, 2008, by (a) interviewing key ISBE personnel; (b) inspecting written policies and procedures and related documents; (c) observing operations and activities; and (d) identifying key processes and control points for the Title I, Part A, comparability and schoolwide programs; IDEA, Part B, MOE; Single Audit resolution; Title I, Part A, and IDEA, Part B, allocations and accounting for funds (we considered ISBE's control environment, risk

assessment, control activities, information and communication, and monitoring when making our assessment).

6. Reviewed Single Audit reports from fiscal year 2006 and determined whether corrective action plans concerning monitoring of subrecipients were implemented for audit resolution purposes.
7. Determined which subrecipients ISBE monitored during the audit period, what mechanisms ISBE used to monitor them, and whether the monitoring reports contained any findings that ISBE considered to have had a significant impact on the effectiveness of the programs reviewed.
8. Determined ISBE's full-time equivalent staff engaged in subrecipient monitoring during the audit period.
9. Determined whether ISBE evaluated the performance of LEAs' programs and whether program goals were achieved.
10. Selected various samples¹¹ of LEAs based on the different universes for the specific aspects of internal control relevant to our audit objectives.
 - a. Selected a random sample of 10 from a universe of 104 entities whose A-133 Single Audit reports contained a Federal program-related finding for calendar year 2006. We used the results of the sample to assess the adequacy of ISBE's system of internal control over resolution of A-133 Single Audit findings.
 - b. Judgmentally selected CPS' comparability calculation because of prior OIG audit findings. We also selected a random sample of 9 additional LEAs of the 783 that were required to submit a comparability report. Because none of the 9 randomly selected LEAs were identified as non-compliant by ISBE, we judgmentally selected 2 additional LEAs so that we could follow ISBE's entire comparability process. We used this sample to assess the adequacy of ISBE's system of internal control over evaluating LEAs' compliance with Title I, Part A, comparability requirements.
 - c. Selected a random sample of 10 from a universe of 1,080 schools that participated in a schoolwide program during fiscal year 2008. We used this sample to assess the adequacy of ISBE's system of internal control over approving and reviewing applications and monitoring for compliance with applicable schoolwide requirements.
 - d. Selected a random sample of 10 from a universe of 114 entities that received an IDEA, Part B, allocations for fiscal year 2008. We used the sample to assess the adequacy of ISBE's system of internal control over monitoring compliance with IDEA, Part B, MOE requirements.
 - e. Selected a random sample of 10 from a universe of 114 entities that received IDEA, Part B, allocations for fiscal year 2008. We used the sample to assess the adequacy of ISBE's system of internal control over monitoring the administration of allocations and accounting for IDEA, Part B, funds.
 - f. Selected a random sample of 10 from a universe of 871 entities that received Title I, Part A, allocations for fiscal year 2008. We used the sample to assess the adequacy of ISBE's system of internal control over monitoring the administration of allocations and accounting for Title I, Part A, funds.

¹¹ The sample sizes were chosen based on our consideration that we would not project the results of our tests to the sampling universes.

11. Obtained and analyzed the supporting documentation that ISBE received from the selected subrecipients and determined whether it was sufficient for ISBE to evaluate the subrecipients' compliance with Federal requirements.

We also relied, in part, on computer-processed data obtained from ISBE's Management Information Database Accounting System (MIDAS), Financial Reimbursement Information System (FRIS), AFR, Electronic Grant Management System (eGMS), and ISBE Web Application Security System (IWAS). We identified the specific data from these systems that were significant to our audit objectives. To assess the reliability of the data, we conducted logic tests, looking for missing data, the relationship of data elements, values outside of a designated range, and dates outside valid time frames or in an illogical progression. The data generally were complete and accurate and had corroborating evidence on which we could rely.¹² We concluded that the computer-processed data we were provided were sufficiently reliable for the purposes of our audit.

Using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, we identified the control objectives relevant to our audit's objectives; obtained an understanding of ISBE's system of internal control over the relevant areas; and assessed the adequacy of ISBE's system of internal control over Title I, Part A, comparability; Title I, Part A, schoolwide programs; IDEA, Part B, MOE; Single Audit resolution; and Title I, Part A, and IDEA, Part B, allocations, and accounting for funds. We considered the five essential components of an effective internal control system: control environment, risk assessment, control activities, information and communication, and monitoring. We also gained a limited understanding of the information systems control (general and application)¹³ significant to the audit objectives by performing tests on the Title I, Part A, comparability and schoolwide programs; IDEA, Part B, MOE; Single Audit resolution; and Title I, Part A, and IDEA, Part B, allocation data.

We conducted our audit from May 2008 through March 2009 at ISBE's administrative offices in Springfield, Illinois, and at our offices. We discussed the results of our audit with ISBE officials on April 27, 2009.

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

¹² Corroborating evidence is evidence such as interviews, prior reports, and data in alternative systems.

¹³ The general controls that we obtained a limited understanding of included security management, logical and physical access, configuration management, segregation of duties, and contingency planning. The application controls included controls over input, processing, output, master data, application interfaces, and data management system interfaces.

ADMINISTRATIVE MATTERS

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 will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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 Department of Education official, who will consider them before taking final Departmental action on this audit:

Thelma Melendez
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Washington D.C. 20202

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

Attachment

Acronyms/Abbreviations Used in this Report

AFR	Annual Financial Report
ARRA	American Recovery and Reinvestment Act of 2009
C.F.R.	Code of Federal Regulations
Comparability	Title I, Part A, Comparability of Services
Coop	Cooperative
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPS	Chicago Public Schools
Department	U.S. Department of Education
EDGAR	Education Department General Administrative Regulations
eGMS	Electronic Grant Management System
ESEA	Elementary and Secondary Education Act of 1965
FRIS	Financial Reimbursement Information System
IDEA	Individuals with Disabilities Education Act
ISBE	Illinois State Board of Education
IWAS	ISBE Web Application Security System
LEA	Local Educational Agency
MIDAS	Management Information Database Accounting System
MOE	IDEA, Part B, Maintenance of Effort
NCLB	No Child Left Behind Act of 2001
OIG	U.S. Department of Education, Office of Inspector General
SEA	State Educational Agency

Attachment:
ISBE's Comments to Draft Report



Illinois State Board of Education

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

Jesse H. Ruiz
Chairman

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

July 10, 2009

Mr. Gary D. 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/A05I0016

Dear Mr. Whitman

I have received the Office of Inspector General's draft Audit Report, entitled *Illinois State Board of Education's Oversight of Subrecipients*, dated May 22, 2009.

Enclosed is the Illinois State Board of Education's response to the findings and recommendations made by your audit team. We recognize that audits are an important tool for ensuring compliance with regulations and appreciate this opportunity to review and improve operations.

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,

A black rectangular redaction box covering the signature of Christopher A. Koch, Ed.D.

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

Enclosure

Illinois State Board of Education

Response to: *Illinois State Board of Education's Oversight of Subrecipients*
Control Number ED-OIG/A05I0016

FINDING – Inadequate System of Internal Control over Ensuring Subrecipient Compliance with Title I, Part A, and IDEA, Part B, Program Requirements

- **ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of Subrecipients' Compliance with the Title I, Part A, Comparability Requirements**
- ISBE did not cite Chicago Public School District 299 (CPS) for not complying with the comparability requirements and did not determine the amount of CPS' Title I, Part A, funding that should have been withheld or repaid as a result of CPS not meeting comparability for fiscal year 2008.
- ISBE discovered that CPS included longevity for staff salary differentials for years of employment in its 2008 comparability calculations.
- ISBE did not follow its established process for another LEA and incorrectly lifted a freeze order placed on that LEA's Title I, Part A, funds.

ISBE Response - Comparability

ISBE respectfully disagrees that there is not an effective process in place to monitor an LEA's compliance with Title I, Part A, Comparability of Service requirements. ISBE's goal is to ensure that all districts receiving Title I funding comply with Comparability requirements and that all schools receiving Title I funds are comparable. ISBE utilizes statewide tracking and continuously looks for means of improving the process to ensure Comparability.

- ISBE External Assurance staff have spent considerable time working with Chicago Public School District 299 (CPS) in developing their capacity for and reporting of Title I Comparability status annually, and for FY 2008 in particular. ISBE has been providing technical assistance to CPS to help the district in achieving comparability for all schools. When a district demonstrates a willingness to work with ISBE and is responsive to requests or warnings, ISBE does not feel it is beneficial to automatically freeze that district's funds. Rather, consideration is given to the steps being taken by the district to achieve compliance and their readiness to discuss and resolve the issues. ISBE did not feel it was appropriate to sanction CPS while the district was still working with ISBE to meet comparability requirements.
- ISBE agrees that teacher's salaries used in the CPS comparability calculations included longevity pay. CPS employs nearly 25,000 teachers. ISBE has discussed removing longevity pay from salary expenditures data to use in determining comparability status. At this point, there does not seem to be a simple solution to calculate comparability without longevity pay but ISBE will continue to work with CPS to determine an acceptable resolution to this issue. ISBE notes that the inclusion of longevity pay is not detrimental to Title I

schools. The amount of longevity pay would be larger for Non-Title I schools than Title I schools, thus requiring additional local funding dollars for Title I schools to meet comparability. See comparability analysis under ISBE Response to Recommendation 1.2.

- ISBE acknowledges that an error occurred with the release of Ridgeview's Title I program funds. Multiple divisions at ISBE can request that a district's program funds be frozen. In this case, both the Grants and Programs division and External Assurance had requested that funds be frozen. Grants and Programs released their freeze of Ridgeview's Title I funds. The division of Funding and Disbursements inadvertently released the funds based on Grants and Programs request without checking for other freeze requests. Since this occurred, Funding and Disbursements has revised their procedures for freezing and releasing funds to ensure that all division requests for freezing funds are honored. See Attachment A for copy of the revised procedures.
- **ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of Subrecipients' Compliance with the Title I, Part A, Schoolwide Requirements**

ISBE did not have an effective process in place to provide reasonable assurance that an individual school's comprehensive plan for its schoolwide program contained the required components. Not all schoolwide plans sampled by the auditors contained all 10 of the required plan components, this included plans that had been reviewed by External Assurance but resulted in no findings.

ISBE Response – Schoolwide Programs

ISBE agrees that processes can be strengthened and has taken steps to ensure compliance with Schoolwide Requirements.

The Grants and Programs (GP) division has redesigned their processes related to schoolwide programs. GP staff have developed training programs and have provided technical assistance to the field on four dates since January of 2009. Two staff members have attended trainings and worked with districts and schools pertaining specifically to their Title I Plan and their Schoolwide Plans. Additionally, GP Staff have created an e-Bulletin to address the Schoolwide compliance issue, as well as, creating a Schoolwide webpage found at http://www.isbe.net/grants/html/title1_resources.htm.

External Assurance has improved their NCLB monitoring tool to include verification of the 10 specific components of a schoolwide program to ensure the schoolwide plans they review are compliant. The monitoring tool can be accessed at: http://www.isbe.state.il.us/ea/pdf/Sample_Monitoring_Instrument.pdf with Schoolwide program requirements listed under #11 and # 12. See Attachment B for a copy of the monitoring tool review of the ten components of a Schoolwide plan.

- **ISBE's Monitoring Processes Did Not Provide Reasonable Assurance of Subrecipients' Compliance with the IDEA, Part B, Maintenance of Effort (MOE)**

ISBE did not have an effective monitoring process in place to review IDEA, Part B, local-level MOE calculations. ISBE did not verify data, such as the number of special education pupils, expenditures, and formulas used in local-level IDEA, Part B, MOE calculations during its monitoring review process. The auditors' sample of MOE calculations identified errors in the calculations and entities not in compliance with MOE requirements.

ISBE Response – IDEA Maintenance of Effort

ISBE agrees that processes can be strengthened to ensure compliance with IDEA Maintenance of Effort (MOE) requirements. The Illinois State Board of Education (ISBE) is committed to continuous improvement and strives to insure full compliance with all components of the Individuals with Disabilities Act (IDEA) including Maintenance of Effort (MOE).

In 2006, ISBE convened a committee of school business officials to develop a tool for districts to use to report special education expenditures. Recognizing the multiple differences in over 800 districts in the state, the committee created a tool by which each district could report its unique revenue sources and expenditures. The committee developed an Excel worksheet that could be adapted to the needs of the LEA which guided the LEA in a process to review expenditures from the most recently audited fiscal year to ascertain if the LEA was maintaining fiscal effort. Grant applicants then used this information to report Maintenance of Effort to ISBE. To allow for variability, this Excel worksheet currently in use does not utilize cell protection.

To eliminate the variables inherent in this process, ISBE is currently working to develop a process whereby LEA Maintenance of Effort data is extracted from a district's audited Annual Financial Report (AFR). Because there is significant variation in the administration of special education at the LEA level, it is a challenge to find a process that will accurately report these special education expenditures. ISBE is committed to develop a process that will eliminate the occurrence of error at the local level. It is estimated that development of this process will be completed during the fiscal year 2010. This system to extract the financial data from the AFR and determine whether Maintenance of Effort has been met will resolve the issues noted by the auditor regarding cell protection and accuracy.

In Illinois, eligible grant applicants consist of either districts which provide their own special education services or joint agreements (cooperatives) which provide special education services to member districts. ISBE does not agree with the auditor's assertion that ISBE is required to calculate Maintenance of Effort for all LEAs. When an LEA is a member of a joint agreement (cooperative), the grant agreement is between ISBE and the joint agreement (cooperative) not the LEA. It is the joint agreement's (cooperative's) responsibility to determine that their member LEAs have met the Maintenance of Effort requirement. Thus, ISBE has required cooperatives to report only the combined total Maintenance of Effort for all member districts. The issues identified by the auditors related to MOE calculation or compliance were generally part of a joint agreement (cooperative). The system to extract the financial data from the AFR, discussed above, will make MOE determinations for all LEAs, including those that are part of a joint agreement (cooperative) and should resolve the issues noted by the auditor.

- **Adequate Staffing Levels and Improved Procedures Needed to Improve Oversight of Compliance and Improve Services to At-risk Children**

ISBE does not have adequate staffing levels to monitor subrecipient compliance with the Title I, Part A, comparability and schoolwide program requirements. Prior to fiscal year 2008, ISBE's External Assurance Division did not have any full-time, on-site monitors at CPS. Although ISBE recently hired two full-time, on-site monitors at CPS, the staffing level still might be inadequate as the monitors are newly hired and behind schedule in their monitoring duties.

ISBE Response – Oversight of Compliance

ISBE recognizes that External Assurance staffing levels have not been sufficient to provide adequate coverage of subrecipient compliance with Federal grant requirements. Four staff members have accepted positions with External Assurance beginning August 2009, filling outstanding vacancies. External Assurance will then have 25 total staff. As noted in the finding, ISBE has constantly requested increased staffing levels for External Assurance, without success. ISBE acknowledges that the monitoring plan will be difficult to accomplish with current staff, however, the current economic environment makes it unlikely that additional appropriations for staff will be forthcoming. ISBE is considering contracting externally for monitoring activities related to certain American Recovery and Reinvestment Act funds.

Prior to implementing the American Recovery and Reinvestment Act (ARRA), ISBE was undertaking a project to evaluate oversight and monitoring practices from an agency-wide perspective in order to determine more efficient and effective means to monitor subrecipients. This would include better coordination between program staff and External Assurance to ensure compliance requirements are met. The requirements of ARRA implementation has reduced the time available for this evaluation, delaying when the analysis can be performed.

Recommendation 1.1

Return \$667,876, which represents the amount by which CPS did not comply with the Title I, Part A, comparability requirement during fiscal year 2008.

ISBE Response

ISBE is still awaiting a program determination from the U.S. Department of Education (ED), Office of Elementary & Secondary Education on the audit *Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement* (A05G0033), as relates to the appropriate corrective action to take in sanctioning CPS for not meeting comparability requirements in previous years. It appears that Recommendation 1.1 is utilizing the approach ISBE suggested in requiring CPS to return only the portion of Title I, Part A funds by which the schools were non-comparable.

CPS requests that they be allowed to convert the funds provided for comparability positions that were not filled for the schools to support the instructional program. The funds would be utilized for professional development, instructional supplies and materials and other instructional expenses. CPS has requested not to return the \$,667,876.

Recommendation 1.2

Reevaluate all LEAs' fiscal year 2008 comparability determinations, determine whether the determinations exclude longevity, and return that portion of Title I, Part A funds received by schools that ISBE determines to be non-comparable.

ISBE Response

ISBE is unclear on the need to reevaluate all LEAs' Fiscal Year 2008 comparability determinations. As noted in the finding, "Although we did not find any problems with ISBE's monitoring of the nine randomly selected LEAs' compliance with the comparability requirements, we determined that ISBE continues to have weaknesses in its oversight of CPS' compliance with the comparability requirements..." ISBE's Title I Comparability Instructions (http://www.isbe.state.il.us/ea/pdf/comparability_instructions.pdf) direct LEAs to exclude longevity in their comparability calculations.

For example:

Column 5 Salaries - Enter the total amount of state and local funds spent on salaries for the staff members included in Column 4 less the amount of such salaries based on length of service (longevity/salary differentials). Include state and local funds budgeted for curriculum materials and instructional supplies for the 2008-2009 school year. Enter the data to the nearest dollar. Do not include salaries paid from federal funds.

Given staffing and time constraints, it appears other efforts to ensure LEA compliance with Federal requirements would be more beneficial.

With regard to CPS' inclusion of longevity pay in determining comparability, Attachments C and D provide an analysis of a group's comparability determinations with and without longevity pay, respectively. Attachment C, with longevity pay, results in a required per pupil expenditure of local funds (salaries only) of \$8,940.88 for Title I schools to be determined comparable. When longevity pay is excluded, as shown in Attachment D, the per pupil expenditure amount of local funds is reduced to \$4,887.20 to achieve comparability. Thus, the exclusion of longevity pay results in reduced local funding levels to achieve comparability.

In addition, considerable time and effort would be required to remove longevity pay from salary data for use in calculating comparability determinations.

Recommendation 1.3

Amend its procedures for ensuring that (a) LEAs required to submit revised comparability reports because of reporting errors do so in a timely manner, and (b) LEAs implement corrective actions.

ISBE Response

ISBE's Title I Comparability Instructions provide the following directions for submitting revised comparability reports, with a time-frame:

NON-COMPARABLE SCHOOLS

If an LEA is not comparable, the district must use its written procedures to correct the imbalance, and must submit documentation to this effect by December 30, 2008. If an LEA is found to be out of

compliance with the comparability requirements, a portion of the LEA's Title I funds must be withheld by ISBE or repaid by the LEA, in the amount of percentage by which the LEA was found to be out of compliance.

Recommendation 1.4

Cite LEAs that do not comply with the comparability requirements and determine the amount of Title I, Part A, funding to be withheld or repaid.

ISBE Response

As noted in ISBE's Title I Comparability Instructions:

If an LEA is found to be out of compliance with the comparability requirements, a portion of the LEA's Title I funds must be withheld by ISBE or repaid by the LEA, in the amount of percentage by which the LEA was found to be out of compliance.

ISBE froze or withheld funding for 28 districts during FY 2009. All 28 have since complied with comparability requirements and the funds were released.

Recommendation 1.5

Assign a sufficient number of employees to the External Assurance Division to assist with the monitoring of LEAs' compliance with the requirements of Federal programs.

ISBE Response

Seven (7) new positions have been included in ISBE's budget request to the General Assembly over fiscal years 2008, 2009, and 2010. State budget constraints and the current economic climate reduce the probability that additional staff will be forthcoming.

Recommendation 1.6

Provide ISBE monitoring staff, LEAs, and schools with written guidance on the specific requirements for comprehensive schoolwide plans.

ISBE Response

As noted in our response to the comparability portion of the finding, ISBE Grants and Programs (GP) staff has redesigned our schoolwide process. GP staff have developed training programs and have provided technical assistance to the field on four dates since the January of 2009. Two staff members have attended trainings and worked with districts and schools pertaining specifically to their Title I Plan and their Schoolwide Plans. Additionally, GP Staff have created an e-Bulletin to address the Schoolwide compliance issue, as well as, creating a Schoolwide webpage found at http://www.isbe.net/grants/html/title1_resources.htm.

External Assurance has improved their NCLB monitoring tool to include verification of the 10 specific components of a schoolwide program to ensure the schoolwide plans they review are compliant. The monitoring tool can be accessed at: http://www.isbe.state.il.us/ea/pdf/Sample_Monitoring_Instrument.pdf with Schoolwide program requirements listed under #11 and # 12. See Attachment B for a copy of the monitoring tool review of the ten components of a Schoolwide plan.

Recommendation 1.7

Develop and implement policies and procedures to:

- a. ensure coordination and participation, if needed, between ISBE Title I, Part A, schoolwide monitoring staff and External Assurance Division monitoring staff when reviewing a comprehensive plan for a schoolwide program for compliance with the specific requirements;*
- b. verify local-level MOE data; and*
- c. provide reasonable assurance that entities report accurate and complete special education budget and expenditure data needed to ensure that, on a total or per capita basis, financial support for special education and related services for children with disabilities meets the IDEA, Part B, local-level MOE requirements.*

ISBE Response

ISBE's Divisions of Grants and Programs, Special Education Services, and External Assurance will work together to ensure that subrecipient monitoring processes adequately encompass qualitative programmatic review of NCLB compliance requirements and verification of data used in LEA MOE calculations. ISBE's review of oversight and monitoring practices from an agency-wide perspective, as discussed under ISBE Response – Oversight of Compliance, will include an analysis of ways to better integrate the review of programmatic and fiscal compliance when performing subrecipient monitoring.

Recommendation 1.8

Recalculate local-level MOE calculations according to IDEA, Part B, requirements for fiscal year 2008 and report the revised MOE levels to the Department. If any of the entities did not meet MOE based on its recalculation, ISBE should return any required IDEA, Part B, funds to the Department.

ISBE Response

ISBE will recalculate local-level MOE calculations for a random sample of districts that received IDEA Part B funds for fiscal year 2008. In addition, ISBE will continue to remedy problems in local Maintenance of Effort reports that were identified in the Office of the Inspector General's draft audit report. If any of the districts are found to not meet the Maintenance of Effort requirements, ISBE will follow all applicable rules and regulations.

ISBE Response to "Other Matters"

Under Other Matters, it is stated: "ISBE did not use accurate data to complete its State-level IDEA, Part B, MOE calculation." ISBE will perform the calculation of State-level MOE in whatever manner is deemed appropriate. However, the U.S. Department of Education has not provided definitive guidance on determining the amount of "State financial support" (34 C.F.R. § 300.163(a)) for calculating State-level MOE. If guidance was available directing use of the net amount of State funds distributed and recovered in determining State-level MOE, ISBE would have been following that guidance.

Attachment A

Illinois State Board of Education
Division of Funding and Disbursements

Procedures for Freezing and Releasing funds

- Insert notes or e-mails in FRIS specifying who requested the freeze and the reason for the freeze.
- Prior to the payment release, notes should be reviewed to ensure that the district is in compliance with every division that requested funds to be held.

Note: Requests for federal and state grant payment freezes are received from several divisions, as well as, from several staff within a division for different purposes. All payment freeze requests must honored until all conditions are satisfied.

NCLB Monitoring Instrument - History

Attachment B

Required Components - SW Programs

x' If Applicable to the Program					Yes No N/A		
Title I	Title II	Title IV	Title V				
12. Does the schoolwide Program address the 10 required components?							
a. A comprehensive needs assessment was conducted. <u>20USC 6314(b)(1)(A)</u> , <u>34CFR 200.26(a)(1)(i)(A-B)(ii)</u> (Finding 10016 RCA 10016-2)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b. School reform strategies are being implemented. <u>20USC 6312(b)(1)(B)(i-iv)</u> , <u>34CFR 200.28(a)(1)(2)(i-iv)(3)(i-v)</u> (Finding 10016 RCA 10016-3)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c. Instruction by highly qualified teachers. <u>20USC 6314(b)(1)(C)</u> , <u>34CFR 200.28(b)</u> (Finding 10016 RCA 10016-4)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d. High quality and ongoing professional development, supported by sufficient resources, for teachers, principals, paraprofessionals and if appropriate, parents and other relevant school staff. <u>20USC 6314(b)(1)(D)</u> , <u>34CFR 200.28(b)(2)(i-ii)(3)</u> , <u>20USC 6314(a)(4)</u> (Finding 10016 RCA 10016-5)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e. Strategies to attract high-quality, highly qualified teachers to high need schools. <u>20USC 6314(b)(1)(E)</u> , <u>34CFR 200.28(b)(1)</u> (Finding 10016 RCA 10016-12)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f. Strategies to increase parental involvement as required. <u>20USC 6314(b)(1)(F)</u> , <u>34CFR 200.28(c)(1)(2)(i-ii)</u> (Finding 10016 RCA 10016-6)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g. Plans for assisting preschool children in the transition from early childhood programs to local elementary programs. <u>20USC 6314(b)(1)(G)</u> , <u>34CFR 200.28(c)</u> (Finding 10016 RCA 10016-7)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h. Measures to include teachers in the decisions regarding the use of academic assessments to provide information on, and improve, individual student achievement. <u>20USC 6314(b)(1)(H)</u> , <u>34CFR 200.28(b)(4)</u> (Finding 10016 RCA 10016-8)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i. Activities to ensure that students who experience difficulty mastering required standards are provided with effective, timely additional assistance. <u>20USC 6314(b)(1)(I)</u> , <u>34CFR 200.28(d)(1-2)</u> (Finding 10016 RCA 10016-9)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j. Coordination and integration of federal, state, and local services and programs, including other NCLB programs, violence prevention, and Headstart. <u>20USC 6314(b)(1)(J)</u> , <u>34CFR 200.27(a)(3)(i-iii)</u> , <u>EDGAR 76.580</u> (Finding 10016 RCA 10016-13)							
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments/Proof Indicators:

-School Improvement Plan	
-School Report Card	
-ISAT results	

Attachment C

Chicago Public Schools - District 299
FY09 Comparability Study
HS Citywide101-600

Oracle Unit Number	School Name	FY09 Title I Eligibility	Adjusted School Grade Type Code	Charter / Performance / Contract	School Category Indicators	% Special Ed	K-12 Membership	Grade Span K:123:456:789:10:11:12	Total Gen Ed and SGSA Current Budget	Per Pupil	90% PP (Current)	Additional Funds to be Comparable (Current)
47001	Chicago High School For Agricultural Sciences	Non Title I Eligible	High School		Citywide	18.43%	580	NNNNNNNNYYYY	5,851,305.73	9,934.31	8,940.88	
46461	Spry Community Links High School	Title I Eligible	High School		Citywide	8.96%	134	NNNNNNNNYYYY	1,203,511.05	8,981.43	Yes	-
46011	Best Practices High School	Title I Eligible	High School		Citywide	14.47%	238	NNNNNNNNYYYY	2,293,487.93	9,636.55	Yes	-
Grand Total												-
3												

Attachment D

Chicago Public Schools - District 299
FY09 Comparability Study
HS Citywide101-600 Teach Salary

Oracle Unit Number	School Name	FY09 Title I Eligibility	Adjusted School Grade Type Code	Charter / Performance / Contract	School Category Indicators	% Special Ed	Full Membership	Grade Span K:1:2:3:4:5:6:7:8:9:10:11:12	Total Gen Ed and SQSA Salary Cost -Current	Per Pupil	90% PP (Current)	Additional Funds to be Comparable (Current)
47091	Chicago High School For Agricultural Sciences	Non Title I Eligible	High School		Citywide	18.43%	589	NNNNNNNNYYYY	3,198,399.00	5,430.22		
							589		3,198,399.00	5,430.22	4,887.20	
46461	Spry Community Links High School	Title I Eligible	High School		Citywide	8.96%	134	NNNNNNNNYYYY	770,061.00	5,746.72	Yes	-
46011	Best Practices High School	Title I Eligible	High School		Citywide	14.47%	238	NNNNNNNNYYYY	1,351,954.00	5,506.45	Yes	-
	Grand Total											-
3												