
The Chicago Public Schools’ Administration of Title I, Part A, Funds for Providing Services to Private School Children

FINAL AUDIT REPORT



**Control Number ED-OIG/A05-B0005
March 2002**

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U.S. Department of Education
Office of Inspector General
Chicago, Illinois

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MAR 29 2002

Control Number ED-OIG/A05-B0024

Ms. Mary Jayne Broncato
Deputy Superintendent, School Support
Illinois State Board of Education
100 N. First Street
Springfield, IL 62777-0001

Dear Ms. Broncato:

Attached is our report entitled the Chicago Public School's (CPS) Administration of Title I, Part A, funds for Providing Services to Private School Children during the period July 1, 1999, through June 30, 2000. This report incorporates the comments you and CPS provided in response to the draft audit 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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit.

Susan B. Neuman, Ed.D.
Assistant Secretary for
Elementary and Secondary Education
U.S. Department of Education
FB6-3W315
400 Maryland Avenue, SW
Washington, DC 20202

Office of Management and Budget Circular A-50 directs federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, the official listed above would appreciate receipt of your comments within 30 days.

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

We appreciate the cooperation members of your staff and CPS provided us during our audit. If you have any questions, please contact Richard J. Dowd, Regional Inspector General for Audit, Region V, Chicago, Illinois, at 312-886-6503.

Sincerely,

A large black rectangular redaction box covering the signature of Thomas A. Carter.

Thomas A. Carter
Assistant Inspector General for Audit

Attachment

Table of Contents

The Chicago Public Schools' Administration of Title I, Part A, Funds for Providing Services to Private School Children

Control Number ED-OIG/A05-B0005

	Page
Executive Summary	1
<hr/>	
Audit Results	
Finding No. 1 CPS Did Not Conduct Yearly Progress Assessments for Title I Private School Children	3
Finding No. 2 CPS Could Not Account for All Title I Property and Equipment	5
Finding No. 3 CPS Could Not Clearly Show How Much It Budgeted for or Spent to Operate the Title I Programs at Each Private School	7
Finding No. 4 CPS Did Not Return All Title I Funds Spent for an Expense OESE Determined Was Unreasonable	8
<hr/>	
Other Matter	9
<hr/>	
Background	10
<hr/>	
Objectives, Scope, and Methodology	11
<hr/>	
Statement on Management Controls	12
<hr/>	
Appendix A – Auditee Comments	14

Executive Summary

During the period of July 1, 1999, through June 30, 2000, the Chicago Public Schools (CPS) worked with private school principals to design Title I, Part A (Title I), programs for children attending private schools, monitored those programs to ensure the children were eligible for services, and ensured the designed services were provided. CPS also properly corrected accounting entries that it recorded in error during the audit period. After being instructed to do so by the Office of Elementary and Secondary Education (OESE), CPS rescinded the ability to enter purchase order requisitions on-line from private school officials.

The objectives of our audit were to determine if CPS (1) ensured that Title I funds used to provide services for private school children were expended for their intended purposes and in compliance with selected Federal laws and regulations, and (2) generated and provided funds for Title I services to private school children in proportion to the number of low-income private school children in participating school attendance areas. We did not review CPS' administration of Title I funds for providing services to public school children.

We identified four instances of non-compliance caused by significant management control weaknesses and one other matter that adversely affected CPS' ability to administer the Title I program during our audit period.

Specifically, CPS:

1. Did not conduct yearly progress assessments for Title I private school children;
2. Could not account for all Title I property and equipment;
3. Could not clearly show how much it budgeted for and spent on each Title I program for private school children; and
4. Did not return all Title I funds spent for an expense that the OESE determined was unreasonable.

To ensure CPS strengthens its management controls and improves its ability to provide Title I services to eligible private school children, we recommend that the Assistant Secretary for Elementary and Secondary Education require the Illinois State Board of Education (ISBE) to (1) ensure CPS has finalized its comprehensive yearly progress plan and ensure the plan is implemented immediately, (2) require CPS to establish and follow written policies and procedures that comply with 34 C.F.R. § 80.32 and 200.13, (3) ensure CPS has updated its financial management system so it facilitates tracking the amount of Title I funds and capital expenditures CPS budgets for and spends on each Title I program for private school children, and (4) verify CPS restored \$7,050 to the funds available for Title I programs for private school children and confirm that CPS provided the additional services described in its response to our draft audit report.

We also noted, for fiscal year 2002's allocation, CPS personnel did not identify all children living within CPS' boundaries and attending private schools. We previously reported this matter on February 23, 2001, in State and Local Action Memorandum 01-04 (See the **Other Matter** section of this report). In March 2001, OESE asked the ISBE to review this matter and report its conclusions to the Assistant Secretary for Elementary and Secondary Education. In response, the ISBE had CPS work closely with private school representatives to ensure an appropriate Title I allocation for providing services to eligible private school children during the 2001-2002 school year. CPS revisited the matter and allocated \$1.1 million more than it originally allocated to provide services to eligible private school children.

In response to our draft audit report, the ISBE and CPS generally agreed with the findings and recommendations. The ISBE stated that it "fully recognizes the importance of demonstrating, based on assessments, what constitutes adequate yearly progress." CPS acknowledged that it needed to strengthen its controls over administering Title I funds for providing services to private school children, and it explained the corrective actions it has taken or plans to take. The ISBE wrote that it will monitor CPS to ensure the actions have been taken as described. See Appendix A—Auditee Comments. Because of the voluminous number of attachments included in the ISBE's response to the draft audit report, we have not included them in Appendix A. Copies of the attachments are available upon request.

We made minor changes to the report based on comments we received. We also deleted draft audit report Finding No. 4, because CPS and the ISBE provided sufficient documentation to resolve the issue.

AUDIT RESULTS

During the period July 1, 1999, through June 30, 2000, CPS (1) properly controlled Title I funds allocated to provide services to private school children after being instructed to do so by OESE, (2) adjusted its accounting records to ensure only instructional costs were charged to the instructional pool of funds, (3) worked with private school officials to design Title I programs for children attending private schools, and (4) monitored Title I children attending private schools to ensure they were eligible and received eligible services. In addition, CPS included children attending private schools in its fiscal year 2002 rank ordering of public school attendance areas.

However, we noted four instances of noncompliance. During the audit period, CPS:

1. Did not conduct yearly progress assessments for Title I private school children;
2. Could not account for all Title I property and equipment;
3. Could not clearly show how much it budgeted for and spent on each Title I program for private school children; and
4. Did not return all Title I funds spent for an expense OESE determined was unreasonable.

Significant management control weaknesses that require administrative action by ISBE and the Chief Executive Officer of CPS caused most of these instances of non-compliance. We also identified one other matter that warrants their attention.

In response to our draft audit report, the ISBE and CPS generally agreed with the findings and recommendations. CPS acknowledged that it needed to strengthen its controls over administering Title I funds for providing services to private school children, and it explained the corrective actions it has taken or plans to take. The ISBE wrote that it will monitor CPS to ensure the actions have been taken as described.

Finding No. 1 CPS Did Not Conduct Yearly Progress Assessments for Title I Private School Children

For the period July 1, 1999, through June 30, 2000, CPS did not develop or adopt a plan to conduct yearly progress assessments for private school children receiving Title I services. CPS personnel did not meet with private school representatives to develop an assessment plan for services. Additionally, CPS did not make arrangements with private school representatives to conduct an assessment to measure the improvement of the skills, knowledge, and abilities targeted in the program designs.

Pursuant to Section 1111(b)(1) of the Elementary and Secondary Education Act of 1965, as amended (the Act), “Each state plan shall demonstrate that the State developed or adopted challenging content standards and challenging student performance standards that will be used by the State, its local educational agencies, and its schools to carry out this part.” Section 1111(b)(2) requires each State plan to demonstrate, based on assessments described under paragraph (3), what constitutes adequate yearly progress of any school and local educational

agency (LEA) served with Title I funds toward enabling children to meet the State's student performance standards. Pursuant to Section 1111(b)(3), "Each State plan shall demonstrate that the State has developed or adopted a set of high-quality, yearly student assessments, ...that will be used as the primary means of determining the yearly performance of each local educational agency and school served under this part in enabling all children served under this part to meet the State's student performance standards."

For fiscal year 2002, CPS planned to implement a program to measure participating private school children's yearly progress. CPS informed us that the planning would be done in consultation with representatives from the private schools. During our audit, CPS' Funded Programs staff met with private school affiliates to develop a (1) definition of adequate yearly progress for participating private school children and (2) plan to assess yearly progress.

As of July 2001, CPS and the private school representatives still did not have an agreed upon definition of adequate yearly progress and standards to compare how the private school children were progressing. As a result, CPS could not determine if its Title I programs were enabling private school children served with Title I funds to meet student performance standards. Setting standards for yearly progress will allow CPS to closely monitor the programs so proper changes can be made that enable private school children served with Title I funds to progress toward meeting challenging standards.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct ISBE to:

- 1.1 Ensure CPS' Funded Programs staff immediately finalizes a comprehensive plan that defines adequate yearly progress and lays out how CPS will assess each private school Title I student's progress. This plan shall be developed in coordination with private school representatives to ensure meaningful and timely assessments of progress.
- 1.2 Coordinate with CPS for a follow up review of CPS' implemented corrective actions.

Auditee Comments

CPS and ISBE agreed with our finding and recommendations. The ISBE also stated that it recognizes the importance of demonstrating, based on assessments, what constitutes adequate yearly progress. CPS provided a proposed strategy for satisfying the requirement to ensure meaningful and timely assessments of student progress. ISBE wrote that it will monitor CPS to ensure that CPS' efforts to move forward with the development of a plan addressing adequate yearly progress will be in consultation with representatives of the private school affiliates. ISBE also wrote that it will monitor plan development and the implementation of the corrective actions.

Finding No. 2 CPS Could Not Account for All Title I Property and Equipment

We reviewed inventory records for 10 of 109 private schools that had children receiving services through CPS' Title I programs during the period July 1, 1999, through June 30, 2000. We compared the property and equipment listed on the Title I teachers' and aides' inventory records with the property and equipment in the Title I classrooms. (The Title I teachers and aides marked the property and equipment at the private schools with black marker or removable labels.) The property and equipment in the Title I classrooms agreed with the inventory listings.

We compared the Title I teachers' and aides' inventory lists with CPS' master inventory. We found Title I property and equipment located at the private schools that was not on CPS' master inventory. Our review of the inventory records for the 10 schools we visited disclosed 473 pieces of property and equipment. We found 241 pieces of property and equipment in private school Title I classrooms that were not on CPS' master inventory. For one school, none of the property and equipment in the Title I classroom was listed on CPS' master inventory.

We also identified property and equipment listed on CPS' master inventory that was no longer in the Title I classrooms at the private schools. We identified 80 pieces of property and equipment on CPS' master inventory that were no longer located in the 10 Title I classrooms located in private schools that we visited. In at least one private school, the Title I teacher properly disposed of the property that was no longer needed. In another private school, the unneeded equipment was locked in a storage room.

Given these significant differences, we have no assurances that CPS' inventory for the 99 private schools we did not visit is accurate.

Pursuant to 34 C.F.R. § 200.13(a), a public agency must keep title and exercise continuing administrative control over all property, equipment, and supplies that the public agency acquires with Title I funds for the benefit of eligible private school children. Further, 34 C.F.R. § 200.13 (d)(1), requires an LEA to remove equipment and supplies placed in a private school if they are no longer needed for Title I purposes.

CPS has written property management policies that specifically address inventory maintenance, reconciliation, and disposal procedures. According to CPS' Policy Manual, Section 401.9, adopted April 21, 1999,

Permanent items that have been purchased by or donated to schools, Region Offices, and Central Service Center departments and which have a value of \$250 and a useful life of at least three years must be entered on the Equipment and Furniture Register ... This inventory is to be maintained and updated quarterly and upon receipt of new equipment ... In addition to updating the inventory quarterly, each school, region, and Central Service Center unit must complete a physical inventory of all fixed assets every year, beginning with June 30, 1999, and every year thereafter.

Fixed assets at schools, regions, and the Central Service Center are to be inventoried on the Equipment and Furniture Register or on the computer-based program, when available, listing all information contained on the Equipment and Furniture Register and the funding source, if the asset was purchased through a grant. This inventory is to occur upon the fixed asset's delivery. Each item should be tagged with its control number that can be referenced on the Equipment and Furniture Register.

Though CPS clearly had written policies in place, it did not ensure adherence to them when dealing with property and equipment purchased with Title I funds and placed in Title I classrooms at private schools. During the audit period, CPS did not (1) reconcile its property and equipment inventory with the inventory located in the Title I classrooms at private schools; (2) adequately label (or tag) Title I furniture and equipment placed in private schools; (3) ensure Title I staff knew what to do with excess and obsolete property and equipment; and (4) ensure that Title I staff notified CPS administration that they received new property and equipment.

As a result, Title I property and equipment could be lost, stolen, or used for unallowable activities and CPS would not know about it. Additionally, CPS personnel might be able to put property and equipment that is not currently being used to productive use at other schools that have Title I programs.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct ISBE to require CPS to:

- 2.1 Review its property and equipment policies and procedures and ensure the policies and procedures include directives that will ensure CPS maintains one uniform system of inventory procedures. These procedures should be applied uniformly, whether the equipment or property is at a public school, a private school, or CPS' administrative offices.
- 2.2 Reconcile its master inventory with the property and equipment located in its Title I classrooms; and
- 2.3 Provide training to Title I staff on how to dispose of any Title I property and equipment that is obsolete or no longer needed in the Title I classrooms.

Auditee Comments

CPS and ISBE agreed with our finding and recommendations.

Finding No. 3 CPS Could Not Clearly Show How Much It Budgeted for or Spent to Operate Title I Programs at Each Private School

CPS could not clearly show how much money it budgeted for or spent to operate the Title I programs at each private school. We identified three different amounts that CPS budgeted for the Title I programs for private school children. CPS had one budget amount (\$11,453,356) that it submitted to ISBE when it applied for Title I funding, a second amount (\$12,302,238) based on the private schools' program design budgets, and a third amount (\$13,404,739) recorded in CPS' accounting records as allocated for Title I programs for private school children.

Also, per CPS' accounting records, CPS did not use approximately \$2.9 million in capital expense funds solely for capital expenses incurred to provide Title I services to private school children. In its fiscal year 2000 budget, CPS requested capital expenses (from Title I funding) of \$3.1 million. Its accounting records showed that CPS only charged approximately \$175,000 for capital expenses during fiscal year 2000. CPS told us that in December 1999, funding was available in the capital expense program to fund non-instructional positions. CPS chose to leave the positions (in the accounting system) as instructional costs and manually transfer the expenses to the capital expense (non-instructional costs) accounting classification after the end of the fiscal year. After making this adjustment, CPS' accounting records still showed a capital expense carryover of approximately \$696,000 from fiscal year 2000.

Because it could not clearly identify how much it budgeted for or spent to operate the Title I programs at each private school, CPS could not definitively state how much Title I funds it had left over at the end of the program year. Private school officials believed that CPS should have approximately \$2 million of Title I funds from fiscal year 2000. Due to CPS' method of accounting for Title I funds used to provide services to private school children, we could neither substantiate nor refute this amount.

According to 34 C.F.R. § 80.20(a)(2), fiscal control and accounting procedures must be sufficient to "Permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." Financial management systems must provide an accurate, current, and complete disclosure of the financial results of financially assisted activities.

CPS' accounting system was inadequate to account for Title I instructional and non-instructional (capital expenses) costs. CPS did not account for Title I non-personnel costs (such as supplies and equipment) or personnel costs in a similar manner. CPS accounted for non-personnel costs by private school unit numbers (identifiers CPS assigned to each Title I program it operated at a private school). The accounting records for non-personnel costs clearly showed the total Title I funds CPS spent on equipment, supplies, and other expenses for each Title I program serving private school children.

CPS accounted for personnel costs (salaries and fringe benefits) by public school unit number. Its accounting records did not clearly show how much CPS spent on personnel costs to operate Title I programs at each private school. Additionally, CPS did not correctly code non-

instructional aides' salary and fringe benefits (capital expenses) when recording these payments in its accounting system.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct ISBE to ensure that CPS:

- 3.1 Revises its financial management system so it will permit CPS to clearly show the amount of Title I instructional funds and capital expenditures it spent to operate the Title I program at each private school. At a minimum, CPS should account for all expenses, personnel and non-personnel, based on the private school unit number.
- 3.2 Establishes effective budgetary control over Title I expenditures to ensure that money budgeted is expended according to the established plans or program designs.

Auditee Comments

CPS and ISBE agreed with our finding and recommendations. CPS described three corrective actions it took or is taking: (1) for FY 2001, all non-instructional positions were transferred out and correctly charged to the Title I capital expenses account; (2) for FY 2002, CPS assigned two project numbers to separate appropriations and expenditures for Catholic and non-Catholic schools; and (3) for FY 2003, CPS stated it will establish accounting procedures where the individual private school unit number will be charged for both personnel and non-personnel items. ISBE stated it would monitor CPS to ensure that it has followed through or will follow through with its proposed corrective actions.

Finding No. 4 CPS Did Not Return All Title I Funds Spent for an Expense OESE Determined Was Unreasonable

In June 1999, the Archdiocese of Chicago, Office of Catholic Education (OCE), contracted with Millennia Consulting to conduct a five-year evaluation study of the Title I programs provided to eligible Catholic school children. According to OESE, the OCE directed the contractor's work. OCE also received invoices from Millennia Consulting and submitted them to CPS for payment. Between November 1999 and October 2000, CPS paid Millennia Consulting \$188,200 based on the invoices OCE submitted.

In its monitoring report dated January 10, 2001, OESE instructed ISBE to require CPS to restore \$181,150 from non-federal sources to the pool of funds to provide services to private school children. OESE cited Section 14303(a)(1) of the Act, which requires any contract to be under the control and supervision of a public agency. In addition, OESE stated that the Millennia Consulting study repeated existing information on Title I and was therefore not a reasonable and necessary expense (34 C.F.R. § 80.22). Because OESE determined that the Millennia Consulting study was not a reasonable and necessary expense, all payments made to the contractor are unreasonable.

Recommendation

- 4.1 We recommend that the Assistant Secretary for Elementary and Secondary Education direct ISBE to confirm, with private school representatives, that CPS restored the additional \$7,050 (\$188,200 less \$181,150) and used those funds to provide the services CPS described in its response to the draft audit report (See **Appendix A**).

Auditee Comments

CPS stated that it restored the \$7,050 to the pool of funds that provide instructional services to private school Title I students and used the funds for a summer program implemented from June 2001 to August 2001. ISBE stated that it reviewed the documents CPS submitted to support restoration of the funds.

Office of Inspector General Response

The auditee concurred with the finding and stated that it took corrective action. However, the documentation provided was not sufficient to confirm that CPS provided the additional services described. We revised our recommendation based on the auditee's comments.

OTHER MATTER

Rank Ordering and Per Pupil Allocations

In February 2001, we reported that preliminary results from our audit disclosed that CPS followed a systematic process when ranking its public school attendance areas and allocating Title I funds for the 2001-2002 school year. Though CPS employees ensured they used poverty data from the private schools within CPS' boundaries, they did not attempt to locate children living within CPS' boundaries and attending private schools located in other school districts. CPS employees also did not include children attending private schools whose administrators failed to respond to CPS' requests for information. Finally, we reported that CPS' count of children eligible for Temporary Assistance to Needy Families and attending private schools might have been understated.

In March 2001, the Acting Deputy Assistant Secretary for Elementary and Secondary Education asked the ISBE's Superintendent of Education to review the findings of the Office of Inspector General and report his conclusions within 30 days to the Deputy Assistant Secretary. In response, the ISBE required CPS to work with the private schools to ensure an appropriate allocation for the 2001-2002 school year. CPS revisited its count and determined that private school children generated \$1.1 million more than CPS originally calculated. Though CPS added funds to the pool of Title I funding available for services for private school children for the 2001-2002 school year, it did not revise its rank ordering. CPS included both public and private school children in its original 2001-2002 rank ordering of public school attendance areas. However, CPS officials told us that the private school recalculation occurred too late in the year

to revisit its overall rank ordering of public school attendance areas. The budgets for all CPS public schools had already been set.

For the 2002-2003 school year, CPS' Funded Programs staff plans to address this issue by working with the private school administrators and affiliates to obtain an accurate poverty count according to the time line it developed in response to an OESE technical assistance visit. CPS plans to gather and review poverty data that fairly represents the number of private school children that would qualify for eligibility under Title I legislation and include those children in the rank ordering process. Additionally, CPS informed us that it developed and implemented a plan to identify children who live in Chicago but attend schools outside Chicago.

OESE should ensure that the ISBE approves CPS' 2002-2003 application for Title I funding only after receiving assurances that CPS completed its rank ordering according to the plan described.

BACKGROUND

Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended, provides funds for supplemental educational services for eligible public and private school children living in high-poverty areas. The Title I, Part A, program provides formula grants through state educational agencies to LEAs to assist low-achieving children meet challenging state curriculum and student performance standards in core academic subjects.

LEAs are to target funds to schools with the highest percentages of children from low-income families. Title I services target children who are failing, or at most risk of failing, to meet state academic standards. Services the LEA can provide to private school children under the program include, but are not limited to, (1) instruction and services provided at a public or private school site, other public and privately owned neutral sites, or in mobile vans or portable units; (2) educational radio and television; (3) computer-assisted instruction; (4) extended-day services; (5) home tutoring; (6) take-home computers; and (7) interactive technology. The LEA may provide Title I services directly or through contracts with public and private agencies, organizations, and institutions, as long as those entities are independent of the private school and of any religious organization in the provision of those services.

CPS is the LEA for purposes of providing Title I services to children living in the City of Chicago and attending private schools. The Act authorizes Federal funds to be made available through ISBE. For the period July 1, 1999, through June 30, 2000, ISBE allocated \$168,813,679 in Title I funds to CPS. According to its application for funding, CPS budgeted \$11,453,356 for Title I programs to provide services to children attending private schools. This amount consisted of \$8,351,305 to provide instructional and support services and \$3,102,051 for capital expenses. During the 2000 program year, CPS allocated funding to provide Title I services to children attending 109 different private schools.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objectives of our audit were to determine if CPS:

1. Ensured that Title I funds used to provide services for private school children were expended for their intended purposes and in compliance with selected Federal laws and regulations; and
2. Generated and provided funds for Title I services to private school children in proportion to the number of low-income private school children in participating school attendance areas.

Specifically, we determined if CPS:

1. Properly controlled Title I funds allocated to provide services to private school children and did not have private schools administer the Title I funds themselves (during a technical assistance visit in April 2000, OESE told CPS it could not allow private school officials to encumber Title I funds);
2. Properly accounted for Title I funds;
3. Charged non-instructional costs as instructional costs, and, if so, determined if CPS properly adjusted its accounting records to reflect that the costs were non-instructional (capital expenses);
4. Properly counted children attending private schools and included them in its rank ordering;
5. Worked with private school officials to design programs to provide services to children attending private schools; and
6. Monitored Title I children attending private schools to ensure they were eligible, received services, and made progress toward achieving the state's academic standards.

Our audit covered the period July 1, 1999, through June 30, 2000, and CPS' rank ordering process for the 2001-2002 program year.

To accomplish our objectives, we reviewed CPS' (1) written policies and procedures over providing Title I services to private school children, accounting for Title I funds, and maintaining property records; (2) accounting and payroll records; (3) purchase orders, invoices, and cancelled checks for expenses charged to the Title I program during the audit period; and (4) Title I program designs for providing services to children attending 109 private schools. We visited five private schools, where we spoke with the Title I teachers or aides (who were CPS employees) and ensured CPS' monitoring reports on the Title I program accurately reflected the status of the program at the private school. We also conducted an inventory of property and equipment located at 10 private schools. We compared our inventory with the master inventory maintained by CPS' accounting department. Finally, we interviewed various CPS employees, Title I teachers and aides, private school administrators, and private school principals. We did not review CPS' administration of Title I, Part A, funds for providing services to public school children.

During the audit, we relied on computer-processed data containing Title I accounting transactions and rank ordering information. To assess the reliability of the accounting data, we compared the data with source documents (purchase orders and invoices) and the source

documents with the computer data. For the rank ordering data, we used the same data CPS used for fiscal year 2002, and recalculated CPS' count of children attending private schools and meeting the poverty level criteria. We ensured that the data CPS used was the same data submitted by the private schools. We also performed logical tests of the rank ordering data for the 2002 program year (the rank ordering source information for 2000 and 2001 was not available). Based on these tests, we concluded that the computer-processed data were sufficiently reliable to be used in meeting the audit's objectives.

We reviewed CPS' accounting for Title I transactions during the period July 1, 1999, through June 30, 2000. During this period, CPS recorded 13,541 transactions totaling \$12,770,312. We stratified these transactions into seven categories: Salary/Teachers; Salary/Career Services; Supplies; Contractual Services; Payments to Schools¹; Pension/Fringe Benefits; and Furniture and Equipment. We randomly selected and reviewed documentary evidence for 560 transactions totaling \$4,760,831. We tested the transactions to determine whether they were properly accounted for, allowable, supportable, and accurate.

We conducted our fieldwork at CPS' administrative offices and our regional office in Chicago, Illinois, between November 2000 and September 2001. We discussed the results of our audit with ISBE and CPS officials on August 14, 2001. Our audit was performed in accordance with government auditing standards appropriate to the scope described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we assessed CPS' system of management controls, policies, procedures, and practices applicable to its administration of Title I services for private school children. We performed the assessment to determine the level of control risk; that is, the risk that material errors, irregularities, or illegal acts may occur. We performed the assessment to assist us in determining the nature, extent, and timing of the tests needed to accomplish our audit objectives.

To make our assessment, we identified CPS' significant management controls and classified them into the following categories:

1. Financial Management

- Generating (rank ordering of public school attendance areas) and providing funds (per pupil allocations),
- Monitoring the use of funds,
- Budgeting allocated funds,
- Approving requests and paying for goods and services, and
- Paying salaries and fringe benefits.

¹ Payments to Schools consisted of advances to private schools for admission fees and transportation of eligible private school children to Title I services or events.

2. Administrative

- Monitoring services provided to private school children,
- Delivering services to private school children, and
- Assessing the progress of private school children.

3. Property and Equipment Inventory Development

Due to inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in CPS' management control structure. However, our assessment disclosed significant management control weaknesses that adversely affected CPS' ability to administer Title I funds used to provide services to children attending private schools. These weaknesses included (1) non-existent written procedures to determine the eligibility and assess the progress of private school children receiving Title I services, (2) written procedures for property and equipment that were not followed and also needed strengthening, and (3) an inadequate financial management system. These weaknesses and their effects are discussed in the **Audit Results** section of this report.



Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001

Ronald J. Gildwitz
Chairman

www.isbe.net

Respcio F. Vazquez
State Superintendent of Education

February 8, 2002

Mr. Thomas A. Carter
United States Department of Education
Office of Inspector General
400 Maryland Ave., S.W.
Washington, D.C. 20202-1510

Dear Mr. Carter:

This letter constitutes the response from the Illinois State Board of Education (ISBE) to the Draft Audit Report on the Chicago Public Schools' (CPS) Administration of Title I, Part A, Funds for Providing Services to Private School Children (Control Number ED-OIG/A05-B0005) as prepared and submitted by the United States Department of Education (USDE), Office of Inspector General (OIG). That Draft Audit Report presents the results of an audit of CPS' administration of Title I, Part A, funds during the period July 1, 1999, through June 30, 2000.

Finding No. 1 CPS Did Not Conduct Yearly Progress Assessments for Title I Private School Children

OIG Recommendations:

The Assistant Secretary for Elementary and Secondary Education directs ISBE to:

- 1.1 Ensure CPS' Funded Programs staff immediately finalizes a comprehensive plan that defines adequate yearly progress and lays out how CPS will assess each private school Title I student's progress. This plan shall be developed in coordination with private school representatives to ensure meaningful and timely assessments of progress.
- 1.2 Coordinate with CPS for a follow-up review of CPS' implemented corrective actions.

ISBE Response:

The OIG Draft Audit Report related the OIG's finding that, for the period July 1, 1999, through June 30, 2000, CPS did not have an agreed upon definition of adequate yearly progress, did not develop or adopt a plan to annually assess the progress of Title I participating private school students, and did not satisfy the requirement to closely monitor Title I programs so that changes might be made to better enable private school children served with Title I funds to make progress toward meeting state standards.

Making Illinois Schools Second to None

In response to the OIG's Draft Audit Report, CPS has concurred with the OIG's finding and has provided its proposed strategy for satisfying the requirement to ensure meaningful and timely assessments of student progress. (Attachment A)

CPS has reported that, on July 12, 2001, a task force, which included CPS personnel and representatives of the private school affiliates, arrived at a definition of adequate yearly progress based upon ISBE content and performance standards. CPS has forwarded that definition along with a proposed plan for assessing student progress. That plan is to be revised by CPS in response to issues raised by ISBE and will subsequently be re-structured to be consistent with the requirements of the No Child Left Behind Act (NCLB) of 2001.

The ISBE agrees with the OIG's position and fully recognizes the importance of demonstrating, based on assessments, what constitutes adequate yearly progress. ISBE is working with CPS toward that end; and efforts are underway to satisfactorily and expeditiously conclude the process of revising CPS' proposal in response to the issues raised by ISBE. Efforts are also underway to ensure that CPS is aware of the new provisions contained in the NCLB Act and for CPS to begin now structuring its efforts in a manner which is consistent with the requirements of the new legislation. ISBE will monitor to ensure that CPS' efforts to conclude current processes and to move forward with the development of a plan addressing adequate yearly progress, which will be consistent with the provisions of the NCLB Act of 2001, will be in consultation with representatives of the private school affiliates. ISBE will monitor plan development and the implementation of the corrective actions which are incorporated into the comprehensive plan.

Finding No. 2 CPS Could Not Account for All Title I Property and Equipment

OIG Recommendations:

The Assistant Secretary for Elementary and Secondary Education directs ISBE to require CPS to:

- 2.1 Review its property and equipment policies and procedures and ensure the policies and procedures include directives that will ensure CPS maintains one uniform system of inventory procedures. These procedures should be applied uniformly, whether the equipment or property is at a public school, a private school, or CPS' administrative offices. The inventory should include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the location, use and condition of the property, and ultimate disposition and sale price of the property. The procedures should also ensure consistent labeling of the property, regardless of the location.
- 2.2 Reconcile its master inventory with the property and equipment located in its Title I classrooms; and
- 2.3 Provide training to Title I staff and private school officials on how to dispose of

any Title I property and equipment that is obsolete or no longer needed in the Title I classroom.

ISBE Response:

The OIG found that, though CPS has written property management policies that specifically address inventory maintenance, reconciliation, and disposal procedures, CPS did not ensure adherence to those policies when dealing with property and equipment purchased with Title I funds and placed in private school Title I classrooms. The OIG concluded that Title I property and equipment could be lost, stolen, or used for unallowable activities without CPS' knowledge because of CPS' failure to (1.) reconcile its property and equipment inventory with the inventory located in the private school Title I classrooms; (2.) adequately label (or tag) Title I furniture and equipment placed in private schools; (3.) ensure that Title I staff and private school officials know the procedure for dealing with excess and obsolete property and equipment; and (4.) its failure to ensure that Title I staff notify CPS administration upon receipt of new property and equipment.

CPS has acknowledged its inability to account for all Title I property and equipment and noted that the document provided by CPS to the OIG was a listing of equipment with a unit purchase price of \$500.00 or more which CPS purchased within the audit period. CPS indicated its intention to review and more carefully attend to the implementation of its policies and procedures relating to Title I property and equipment as well as to more closely monitor the management and utilization of the property and equipment acquired for the provision of services to Title I eligible students enrolled in private schools. CPS also indicated that it will include a procedure for verification of the equipment inventory in their regular program monitoring process and will train CPS personnel working with private schools in the correct methods for recording, maintaining, transferring, and properly disposing of equipment purchased with Title I funds. CPS will also ensure that equipment purchased for Title I classrooms in private schools will be properly tagged with permanent labeling, and CPS will reconcile the equipment in the nonpublic schools to their master inventory by June 30, 2002. (Attachments A and B)

ISBE agrees that uniform application by CPS personnel of the written policies and procedures which CPS has in place for dealing with property and equipment purchased with Title I funds would minimize the possibility of Title I property and equipment being lost, stolen, or used for unallowable activities. ISBE will direct CPS to review its property and equipment policies and procedures to ensure that those policies contain directives which better enable CPS to maintain one uniform system of inventory procedures which are uniformly applied. CPS has indicated its intention to provide training on the proper procedures for recording, maintaining, transferring, and properly disposing of Title I property and equipment. ISBE will monitor to ensure that training takes place. CPS has also indicated its intention to include a procedure for verification of the equipment inventory as part of its regular program monitoring process, to ensure that Title I equipment is properly tagged with permanent labeling, and CPS has indicated its intention to reconcile the equipment in the nonpublic schools to their master inventory. ISBE will monitor to ensure that those commitments are met by June 30, 2002.

Finding No. 3 CPS Could Not Clearly Show How Much It Budgeted for or Spent to Operate Title I Programs at Each Private School

OIG Recommendations:

The Assistant Secretary for Elementary and Secondary Education directs ISBE to ensure that CPS:

- 3.1 Revises its financial management system so it will permit CPS to clearly show the amount of Title I funds and capital expenditures CPS spent to operate the Title I program at each private school. At a minimum, CPS should account for all expenses, personnel and non-personnel, based on the private school unit number.
- 3.2 Establishes effective budgetary control over Title I expenditures to ensure that money budgeted is expended according to the established plans or program designs.

ISBE Response:

The OIG concluded that CPS' accounting system was inadequate to account for Title I instructional and non-instructional expenditures (capital expenses). The OIG found that CPS had three different amounts budgeted for the Title I programs for private school students, did not use capital expense funds solely for capital expenses incurred in providing services to private school children, could not definitively state how much private school funds it had left over at the end of the program year, and did not account for Title I personnel and non-personnel costs in a similar manner.

CPS has described three different actions it has undertaken in order to be able to more clearly show how much is budgeted and expended to operate the Title I program for eligible private school students. CPS indicated that, for FY 2001, all non-instructional positions were transferred out and correctly charged to the Title I capital expenses account; that, for FY 2002, CPS assigned two (2) project numbers to separate appropriations and expenditures for Catholic and non-Catholic schools; and, for FY 2003, CPS will establish a procedure whereby the individual school Title I appropriations and expenditures for both personnel and non-personnel items will be accounted for based on the private school number. (Attachments A and C)

ISBE agrees that CPS' financial management system must provide an accurate, current and complete disclosure of expenditures and that their accounting procedures must be sufficient to permit the tracking of funds in order to establish that such funds have not been used impermissibly.

ISBE will monitor budget management and program implementation to ensure that CPS establishes effective budgetary control over Title I expenditures so as to ensure that funds are expended in accordance with established plans and/or program designs.

ISBE will also closely monitor to ensure that CPS did transfer out and correctly charge all non-instructional positions for FY 2001; that CPS did assign two (2) project numbers to separate

appropriations and expenditures for Catholic and non-Catholic schools for FY 2002; and that, for FY 2003, CPS will set up the individual school Title I appropriations and expenditures (for both personnel and non-personnel items) to be accounted for based on the private school number.

ISBE expects that such revisions to CPS' financial management system will enable CPS to more clearly show the amount of Title I funds and capital expenditures spent to operate the Title I program for eligible private school students.

Finding No. 4 CPS Could Not Provide Support for 35 Title I Transactions

OIG Recommendation:

- 4.1 The Assistant Secretary of Elementary and Secondary Education directs ISBE to require CPS to provide supporting documentation for the 35 transactions or restore \$447,741 to the private schools pool of funding.

ISBE Response:

The OIG reviewed a sample of CPS' Title I private school transactions for the period July 1, 1999, through June 30, 2000. From that sample, the OIG randomly selected and reviewed 560 from a universe of 13, 541 transactions. CPS was unable to provide supporting invoices or purchase orders for 35 of the 560 transactions selected for review.

In response to this concern, CPS has provided supporting documentation for those 35 transactions. The documentation for 32 of those transactions can be found in Attachment A. The documentation provided for the remaining three transactions can be found in Attachments C and D.

ISBE understands and has reiterated with CPS the C.F.R. requirement that accounting records be supported by appropriate source documents. ISBE will continue to monitor to ensure that such source documents are maintained and available for review.

Finding No. 5 CPS Did Not Return All Title I Funds Spent for an Expense OESE Determined Was Unreasonable

OIG Recommendation:

- 5.1 The Assistant Secretary for Elementary and Secondary Education directs ISBE to require CPS to restore an additional \$7,050 (\$188, 200 less \$181, 150) to the pool of funds that provide instructional services to private school students.

ISBE Response:

The OIG noted that between November 1999 and October 2000, CPS paid Millenia Consulting \$188,200 to conduct an evaluation study which the Office of Elementary and Secondary Education (OESE) found to be an unreasonable and unnecessary expense. In its January 10, 2001, monitoring report, OESE instructed ISBE to require CPS to restore \$181,150 of the \$188,200 paid to Millenia Consulting. Because the OESE found the Millenia Consulting study to be unreasonable and unnecessary; all payments made by CPS to Millenia are unreasonable. Therefore, CPS was required to restore the difference of \$7,050 to the pool of funds that provide instructional services to private school children.

CPS has provided documents to support its assertion that it has restored the amount paid to Millenia Consulting in its entirety (\$181,150 plus \$7,050 = \$188,200).

ISBE has reviewed the documents submitted by CPS and has enclosed those documents (See Attachment E) as part of this response.

OTHER MATTERS**Rank Ordering and Per Pupil Allocations****ISBE Response:**

The OIG noted that CPS has conveyed its intention to address the issue of rank ordering for the 2002-2003 school year by working with private school administrators and affiliates to obtain accurate poverty data according to an established timeline in order to gather and review poverty data that fairly represents the number of children that qualify for eligibility under Title I legislation and to include those children in the rank ordering process. CPS indicated its intention to implement a procedure to identify, as a part of its rank ordering process, children who live in Chicago but attend private schools outside of Chicago.

The OIG has expressed the opinion that **OESE should ensure that ISBE approves CPS' 2002-2003 application for funding only after receiving assurances that CPS completed its rank ordering according to the plan described above.**

CPS has indicated that it received FY 2003 poverty data from its private school affiliates in accordance with the agreed upon timeline and that it solicited and received poverty data regarding children who live in Chicago but attend private schools outside the city. The results of their efforts were summarized, communicated to the private school affiliates, and submitted to CPS' Office of Management and Budget on January 7, 2002 for ranking purposes. CPS has provided a listing of the private schools outside the City of Chicago which were contacted to obtain poverty data, an example of the letter which went out to those private schools, and

examples of the responses submitted in response to CPS' request for poverty data (See Attachment F).

ISBE will carefully review CPS' 2002-2003 Title I application for compliance with all Title I requirements and will not approve that application until such time as ISBE is assured that CPS completed its rank ordering in a manner consistent with the plan conveyed to the OIG.

Closing Statement

ISBE is grateful for the OIG's support for its efforts to facilitate CPS' compliance with the requirements of Title I, Part A. We appreciate the opportunity to provide comments and documentation which may be factored into the preparation of the OIG's final audit report. We hope the comments and documentation herewith submitted will prove beneficial. We are available should there be the need for clarification or elaboration on any of the comments or documents submitted.

Sincerely,


Mary Jayne Broncato
Deputy Superintendent
School Support

cc: Richard J. Dowd
Gary Whitman
Arne Duncan
Barbara Eason-Watkins
Eva Nickolich
John Matorca
Marilyn Johnson
David Agazzi
Julie Bayoneto
Michael Burdeen
Sharon Roberts
Lynda Vaughn
Albert J. Holmes

Appendix A—Auditee Comments

SENT BY:

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GRANTS MGT:# 2/21

ATTACHMENT A

A
MH

CHICAGO PUBLIC SCHOOLS

25 S. Clark St. 10th Floor, Chicago, Illinois 60603
Telephone: (773) 553-1444 * Fax (773) 553-2101

Chief Education Officer

January 31, 2002

Ms. Mary Jane Broncato
Deputy Superintendent
School Support
Illinois State Board of Education
100 North First Street
Springfield, IL 62777 0001

Dear Ms. Broncato:

RE: AUDIT REPORT – CONTROL NUMBER ED-OIG/A05-B005

Enclosed is our response to the report issued by the Office of Inspector General, U.S. Department of Education, in conjunction with the audit of Chicago Public Schools' administration of Title I, Part A, funds to provide services to private school children during the period July 1, 1999 through June 30, 2000.

If you have any questions, please call me at (773) 553-1444.

Sincerely,

[Redacted Signature]

Eva Nickerson
Deputy Chief Education Officer

CC: Dr. Sharon Roberts
Dr. Lynda Vaughn

Children First

SENT BY:

2- 8- 2 ;11:59AM ;

GRANTS MGT:# 3/21

**AUDIT REPORT-CONTROL NUMBER ED-OIG/A05-B0005
CPS ADMINISTRATION OF TITLE I, PART A, FUNDS FOR PROVIDING
SERVICES TO PRIVATE SCHOOL CHILDREN
JULY 1, 1999 THROUGH JUNE 30, 2000**

RESPONSE:

Finding No. 1 – CPS did not conduct yearly progress assessments for Title I Private School Children

Concur. The adequate yearly progress (AYP) assessment concern has been an agenda in the CPS meetings this year with the nonpublic school affiliate representatives. On July 12, 2001, a task force composed of Chicago Public Schools staff, Nonpublic School Affiliate representatives and U.S. Department of Education Region VII personnel met and agreed upon the following definition for "Adequate Yearly Progress" for students in the nonpublic schools IASA Title I programs.

Adequate yearly progress is met by a program that has demonstrated an increase in the percentage of students meeting or exceeding state standards from one school year to the next. Adequate yearly progress means:

- (1) the percentage of students not meeting state standards has decreased yearly;
- (2) the percentage of students not meeting state standards is no more than 50% after 5 years;
- (3) as measured by an appropriate standardized assessment instrument.

On January 10, 2002, CPS staff and Nonpublic School affiliate representatives discussed the adequate yearly progress requirement of IASA Title I and agreed on the following plan:

**Plan for 'Adequate Yearly Progress'
Title I – Private/Nonpublic Schools Participation
2001-2002**

Provided below are the timeline and goals for establishing adequate yearly progress of students that participate in Title I programs in the nonpublic schools.

The purpose of the assessment is three-fold: 1) to provide data as one determinant for participation in Title I programs; 2) to assure that assessment is matched to the curriculum used in the regular classroom so that Title I programs are supplementing the classroom curriculum; and 3) to determine adequate yearly progress of students that participate in the Title I program.

Year 1 – Current Year (Starting Point)

Kindergarten – The teacher will use the Fox in the Box assessment beginning in Kindergarten. This will provide data specific to student progress at two intervals during the year in reading only. Because it is too late to do this assessment at the beginning of 2002 year, Title I kindergarten students will take the Terra Nova-L10 assessment in the spring of 2002.

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IASA Title I students in all grades will take the Terra Nova assessment in reading and math this year in April 2002. These scores will constitute one determinant for student's progress for this year. The classroom teacher together with the Title I teacher will determine the placement of children in the program for the fall.

High Schools. Since high schools use a variety of assessment measures, the IASA Title I students in high schools will take the Terra Nova assessment of reading and math each year in the spring.

Year 2 – Forward

For the year 2002-2003, and all school years thereafter, all students in Title I programs will be assessed each year. Composites of these assessments will be completed by the Title I teachers and reported by school to determine the adequate yearly progress of participating students. This will provide for a composite across grade levels for reporting of progress as generated in reports by CTB-McGraw Hill. Each Title I teacher, in collaboration with the classroom teachers, will provide end-of-the-year class lists by grade level with recommendations for student learning following the review of the reports. These recommendations should be completed by the end of the school year.

Reading/Language/Math

School Name:
Class/Grade List:

Title I Teacher:
Classroom Teacher:

Name	Recommendations
1.	
2.	

Reports provided through use of Terra Nova to include:

- Group List Report – Part I
- Performance Level Summary, Part I & II [Analysis of level of understanding]
- Rank Order Report with Lexiles [Grades 1-12]
- Assessment Summary, Part I
- Objectives Report, Part I
- Report Mate – Clarity

These reports should provide ample information for the Title I teacher to make decisions about adequate yearly progress, needs, and educational goals established in collaboration with the classroom teacher. These reports should be completed in collaboration with the child's homeroom teacher and shared with the instructional leader of the school.

Test Materials: TerraNova-CAT, Basic Multiple Assessment, Reading, Language Arts, Mathematics at appropriate levels, and Fox-in-the-Box.

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**AUDIT REPORT-CONTROL NUMBER ED-OIG/A05-B0005
CPS ADMINISTRATION OF TITLE I, PART A, FUNDS FOR PROVIDING
SERVICES TO PRIVATE SCHOOL CHILDREN
JULY 1, 1999 THROUGH JUNE 30, 2000**

Finding No. 2 – CPS could not account for all Title I property and equipment

Concur. With respect to Title I equipment and property located at the private schools that were not on CPS' master list, please be advised that what the CPS provided to auditors was a listing of equipment with a unit purchase amount of \$500 or more that was purchased within the audit period. The teacher equipment inventory records do not have any references as to purchase date, dollar amount or funding source. The equipment on the teacher equipment inventory could have been purchased outside the audit period, had a unit purchase cost less than \$500 or with non-Title I funds.

With respect to Title I equipment and property that was included on CPS' master list but was not located at the private school, it is the unit administrator's responsibility to inform the Bureau of General Accounting of asset disposals or transfers in compliance with established policies. Department of Funded Programs will ensure that this information is provided on a timely basis.

The CPS will more closely monitor private schools receiving Title I funding for equipment for adherence to established CPS policy. This will include, but is not limited to, training CPS staff in private schools in the correct methods to record, maintain, transfer or properly dispose of equipment. Department of Funded Programs facilitators will include the verification of equipment inventory in their program monitoring of the nonpublic schools.

Finding No. 3 – CPS could not clearly show how much it budgeted for or spent to operate the Title I Programs at each private school.

Concur. As these findings were brought to our attention, the following corrective actions were taken:

- (1) For FY 2001, all noninstructional positions were transferred out and correctly charged to the Title I Capital Expense Project. The status report of Title I allocation and spending was provided to the nonpublic school affiliates.
- (2) For FY 2002, CPS assigned 2 project numbers to separate appropriation and expenditures for Catholic and NonCatholic Schools as pooled. Also, the nonpublic school affiliates, on an ongoing basis, are provided with a report of status of Title I allocation and spending based on the program design.
- (3) For FY 2003, we will set up the positions for the nonpublic school personnel to be charged in their corresponding assigned unit number with the check destination and reporting unit still in the respective public schools that takes care of their payroll and evaluation. The individual school Title I appropriation and expenditures, for both personnel and nonpersonnel, will be accounted for based on the private school number.

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GRANTS NGT:# 6/21

**AUDIT REPORT-CONTROL NUMBER ED-OIG/A05-B0005
CPS ADMINISTRATION OF TITLE I, PART A, FUNDS FOR PROVIDING
SERVICES TO PRIVATE SCHOOL CHILDREN
JULY 1, 1999 THROUGH JUNE 30, 2000**

Finding No. 4 – CPS could not provide support for 35 Title I transactions.

Enclosed are 32 of the 35 missing invoices. Due to the limited space in the current facility, the invoices being requested have to be pulled from outside storage areas.

Finding No. 5 – CPS did not return all Title I funds spent for an expense OESE determined was unreasonable.

The additional amount was restored in the pool of funds that provide instructional services to Catholic schools Title I students and was used to fund the summer program implemented in June 2001 to August 2001.

Other Matter

CPS received the FY 2003 poverty data from the nonpublic schools in accordance with the required timeline. CPS also sent poverty data request to nonpublic schools outside the district within Cook County to provide a listing of students who are eligible for free and reduced lunch and TANF, who are residents of Chicago. Responses were summarized to enable computerized matching of student addresses to the public school attendance area. The results were communicated to the nonpublic school affiliate representatives and submitted to the Office of Management and Budget on January 7, 2002 for ranking purposes.