



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

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ED-OIG/A05-B0023

DEC 18 2001

Dr. Christopher A. Koch
Acting Deputy Superintendent for Special Education
Illinois State Board of Education
Center for Special Education
100 North First Street
Springfield, Illinois 62777

Dear Dr. Koch:

This **Final Audit Report** presents the results of our audit of Individuals with Disabilities Education Act Part B (IDEA) funds at the Illinois State Board of Education, Center for Special Education (ISBE) and four selected local educational agencies (LEAs). The objectives of our audit were to determine: (1) the extent of and reasons for carryovers at the selected LEAs; (2) how many LEAs implemented the 20 percent supplanting provision and, where implemented, how the supplanted funds were used and accounted for; and (3) if ISBE developed and implemented cash management controls to minimize excess cash.

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate Education Department officials.

We provided ISBE with a draft of this report. ISBE indicated in its response that it concurred with the cash management finding and recommendation. We paraphrased ISBE's comments after the finding and have included the response as an Attachment to this report.

AUDIT RESULTS

The percentage of IDEA funds that the four LEAs in our sample carried over ranged from 17 to 59 percent of their 1999 grant year (July 1, 1999 - June 30, 2000) total IDEA allocation. One LEA had a carryover because expenses were less than expected and the other three LEAs planned to have carryover. IDEA contains a supplanting provision that allows LEAs to use 20 percent of the federal funding increase in place of non-federal funds. ISBE did not monitor LEAs to determine if they used the 20 percent supplanting provision and had no record that any LEA used the provision. Three of the four LEAs maintained excess cash. ISBE needs to improve controls to ensure the LEAs comply with cash management requirements.

Carryovers

Under the Tydings Amendment, 20 U.S.C. § 1225, IDEA funds not obligated by the end of the fiscal year for which they were appropriated can be carried over to the following fiscal year. Under the Tydings Amendment, LEAs have up to 27 months to obligate IDEA funds. Statewide, the carryover percentage for 29 LEAs increased between the 1996 and 1999 grant award years. For the 1999 grant award year, the 108 LEAs statewide had an average carryover of 38 percent. The four LEAs in our sample had an average 1999 grant award carryover of 33 percent. One of the four LEAs planned to expend its entire IDEA allocation during the grant award year. However, expenses during the year were less than expected and as a result, the LEA carried over unexpended funds. The other three LEAs planned to have carryover.

Cash Management

While reviewing IDEA cash flow, we identified excess cash at three of the four LEAs. According to 34 C.F.R. §80.20 (b) (7) (July 1, 1999 codification), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

However, CSDOE's process for obtaining IDEA funds and disbursing them to the LEAs did not comply with the regulation. Each LEA established and submitted a payment schedule along with a budget as part of the application process. ISBE used the payment schedules to obtain funds from the Department and disburse them to the LEAs. In actual practice, ISBE made a late lump sum payment to some of the LEAs for up to six months of funds and disbursed the remaining funds according to the payment schedule. LEAs reported expenditures quarterly with the first report covering the period from October 1 through December 31. According to ISBE officials, a computer system compared the reported expenditures to the cash disbursements to determine if the LEAs had excess cash. If excess funds were indicated, ISBE would freeze all payments until the LEA reported expenditures has diminished the excess funds. However, our testing indicated that three of the four LEAs in our sample consistently maintained excess cash. The following table shows the extent of excess cash for the 1999 grant year at the three LEAs.

District Size	Highest Excess Cash Amount	Month of Highest Excess Cash Amount	Grant Year Award Amount	Excess Cash as a Percentage of Grant Year Award
Medium	\$246,646	November, 1999	\$737,812	33 Percent
Large	\$371,684	November, 1999	\$1,952,818	19 Percent
Very Large	\$13,287,044	June, 2000	\$31,144,330	43 Percent

The excess cash on hand at the LEAs resulted in an imputed interest cost to the U.S. Government. We did not do sufficient testing to statistically project the statewide imputed interest cost. Based on our limited testing, using the 5 percent U.S. Treasury Current Value of Funds Rate, we estimate the additional cost could have been between \$22,600 and \$70,000 a month.

Recommendation

The Assistant Secretary for the Office of Special Education and Rehabilitative Services should instruct ISBE to improve controls to ensure that the LEAs comply with cash management requirements.

ISBE Comments

In its October 24, 2001, comments to a draft of this audit report, ISBE indicated that it concurred with our cash management finding. ISBE identified four specific causes for excess cash and four steps to alleviate excess cash problems.

BACKGROUND

The purpose of IDEA is to: (1) ensure that children with disabilities have available to them a free appropriate public education that emphasizes special education and related services designed to meet their unique needs and prepare them for employment and independent living; (2) ensure that the rights of children with disabilities and parents of such children are protected; and (3) assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities. IDEA was enacted in 1975 and is scheduled for reauthorization in 2002.

The IDEA programs are governed by regulations contained in 34 C.F.R. Part 300, *Assistance to States for the Education of Children with Disabilities*. In addition, IDEA is subject to the provisions contained in the *State Administered Programs* (34 C.F.R. Part 76), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 C.F.R. Part 80), and *General Education Provisions Act-Enforcement* (34 C.F.R. Part 81) regulations.

For grant year 1999, the Department provided \$195.8 million to ISBE for IDEA. Of that amount, ISBE kept \$24.8 million for administration and state level activities and allocated \$171.0 million to its 108 LEAs. ISBE provided \$31.4 million to Chicago Public Schools, \$2.0 million to Springfield School District #186, \$744,000 to Rural Champaign County Special Education Cooperative, and \$687,000 to Livingston County Special Services Unit.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine: (1) the extent of and reasons for carryovers at the selected LEAs; (2) how many LEAs implemented the 20 percent supplanting provision and, where implemented, how the supplanted funds were used and accounted for; and (3) if ISBE developed and implemented cash management controls to minimize excess cash.

To meet our objectives, we reviewed: (1) ISBE's written procedures for requesting and receiving IDEA funds from the Department and disbursing funds to the LEAs; (2) ISBE's IDEA grant application, transaction register, voucher batch listings, Financial Reimbursement Information System (FRIS) records, and carryover records; and (3) the Cash Management Improvement Act Agreement between ISBE and the U.S. Treasury. At four judgmentally selected LEAs (small, medium, large, very large), we reviewed receipt and expenditure records.

We reviewed findings from single audit reports for the State of Illinois for the 1997, 1998, and 1999 grant award years and researched the Office of Special Education Program's web page for recent monitoring reports. In addition, we interviewed officials from ISBE and the four selected LEAs.

To achieve the assignment's objectives, we relied on data contained in electronic accounting records at ISBE and the four LEAs. We obtained IDEA disbursement data using the Department's Central Automated Processing System/Grant Administration and Payment System (EDCAPS/GAPS). We then verified that disbursement information in ISBE's accounting records agreed with EDCAPS/GAPS information and with receipt information in the four LEAs' accounting records. We did not verify reliability of LEA expenditure data because the data were not critical to meeting the objectives of the audit. However, during our audit, nothing came to our attention that caused us to doubt the acceptability of the data.

Our audit covered the 1997, 1998, and 1999 grant award years. To calculate the increase in carryover for the three years covered, we obtained and used 1996 grant year data as a base year. We performed field work at ISBE in Springfield, Illinois, from May 21-23, 2001, and at four LEAs from May 23-June 13, 2001. We judgmentally selected one small, one medium, one large, and one very large LEA within Illinois. We conducted our audit in accordance with government auditing standards appropriate to the scope of our review.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we gained an understanding of ISBE's management control structure, as well as its policies, procedures, and practices applicable to the scope of the audit. We identified applicable significant controls at ISBE related to carryovers, supplanting, and cash management. We gained an understanding of the policies, procedures, and practices related to carryovers, supplanting, and cash management at the four LEAs. Due to inherent limitations, gaining an understanding of management controls would not necessarily disclose all material weaknesses. However, we identified a cash management weakness at ISBE related to its procedures for determining amounts of IDEA funds to disburse to LEAs. The Audit Results section of this report fully discusses this weakness and its effect.

ADMINISTRATIVE MATTERS

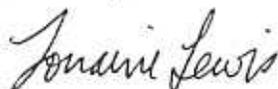
If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final action on the audit:

Robert Pasternack
Assistant Secretary for Special Education
and Rehabilitative Services
FOB 6, Room 7W103
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, receipt of your comments within 30 days would be greatly appreciated.

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.

Sincerely,



Lorraine Lewis



Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001

Ronald J. Gidwitz
Chairman

www.isbe.net

Glenn W. McGee
State Superintendent of Education

October 24, 2001

Richard J. Dowd
Regional Inspector General for Audit – Region V
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd:

This letter is in response to the Draft Audit Report dated September 24, 2001 (ED-OIG/A05-B0023) from the United States Department of Education, Office of Inspector General. The objectives of the audit were to determine: (1) the extent of and reasons for carryovers at the selected LEAs; (2) how many LEAs implemented the 20 percent supplanting provision and, where implemented, how the supplanted funds were used and accounted for; and (3) if ISBE developed and implemented cash management controls to minimize excess cash.

In addition to the audit report, detailed information concerning the receipts and expenditures for the 1997-98, 1998-99 and 1999-2000 project years were received for Springfield School District, Chicago Public Schools and the Rural Champaign Special Education Cooperative (listed as Rantoul LEA).

Audit results were reported in two categories: carryovers and cash management.

Carryovers

The total carryover of a project is the amount allocated to a district or special education cooperative that is unused in the original year of availability. This total carryover includes unbudgeted, undisbursed funds allocated to the district; budgeted and undisbursed funds allocated to the district; and budgeted, disbursed and unexpended funds allocated to the district. Based upon the content of the September 24, 2001 Draft Audit Report, the only carryover that appears to have been reviewed during the audit is the budgeted, disbursed and unexpended carryover, which ties to the second category of the report, cash management. Therefore, the discussion/response to the cash management category addresses both categories within the Draft Audit Report.

Cash Management

Of the four LEAs reviewed by the auditors, three LEAs were found to have excess cash on hand both during the project year and at the end of the project year. After reviewing: (1) the draft audit report; (2) the detailed information concerning receipts and expenditures for the three year period reviewed by the auditors; (3) the financial information data at the Illinois State Board of Education (ISBE); and (4) talking with one of the three LEAs, the following conditions were identified as causes for excess cash on hand and the following steps will be taken to alter the procedures and practices to alleviate this problem.

1. At the beginning of the fiscal year, the LEA has cash on hand/carryover from the previous project year. Based on the timing of the filing of final liquidation reports, the ISBE is not aware of this amount, in part or in whole, until December. Districts may report their whole budget as either expended or obligated on the interim final report. This begins the process of having too much cash on hand. This situation is further aggravated by the payments for the new year being based upon a budget for the new project year that ignores cash carried over from the prior project year.
2. The payment schedule totals 100% of the approved budget. In most cases, LEAs are not expending the entire budget.
3. Due to processing delays in getting projects approved, loaded into the Financial Reimbursement and Information System (FRIS) for payment and reporting, the initial payment for the year is vouchered later in the project year than indicated on the payment schedule. This results in the practice of "catching up" the payments to the month when the initial payments are made. This has led to the auditors' perception of lump sum (6 months of funds) being distributed initially. This practice has been based upon the assumption that the payment schedule, as approved, represented actual cash needs of the LEA. This cash distribution in conjunction with the unknown cash on hand is probably the primary cause of the audit finding.
4. Expenditures by month reviewed by the auditors do not match the quarterly expenditures reported by the LEAs. In many cases, the expenditure totals for the months, as listed by the auditors, are less than the expenditures reported by the LEA. Therefore, the FRIS monitoring of cash on hand is hampered by the over reporting of the LEAs. Additionally, the LEAs do not have their first report due at ISBE until the end of January, so cash flow cannot be monitored until that point in time, which is halfway through the project year.

Mr. Richard Dowd
October 24, 2001
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Solutions

1. In order to improve the payment schedules to reflect the actual cash needs of the LEAs and to improve the accuracy of the expenditure reports, a directive will be sent to all LEAs reiterating that: (1) all payment schedules must reflect cash flow needs of the LEA and (2) all expenditure reports must reflect actual expenditures from their monthly account statements.
2. To increase the ability of the FRIS edits to monitor cash flow, federal projects with appropriate beginning dates will be required to file a first quarter expenditure report beginning in state FY03 (July 1, 2002).
3. To improve the timing of final liquidation reports for one project year and first payment for the following project year, we will work with LEAs to move to a state fiscal year cycle (July 1 through June 30) when at all possible. The result of this project year cycle will be the ability of ISBE to apply cash on hand balances as deductions to the payments scheduled prior to the first payments being made.
4. The process for reviewing and approving the payment schedules of the projects will be enhanced to put in place review criteria that will focus on cash needs based upon the program criteria and the detailed budget breakdown information.

We appreciate your time and effort in this matter and the opportunity to review our procedures. If you have any questions regarding this response or related matters, please feel free to contact me at 217/782-5256.

Sincerely,



Marcia Sailsbury
Division Administrator
Division of Funding and
Disbursement Services

Cc: Dr. Christopher Koch
Tammy Rust