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March 16, 2006

**Control Number ED-OIG/A05G0001**

Dr. Randy J. Dunn  
State Superintendent of Education  
Illinois State Board of Education  
100 North First Street  
Springfield, IL 62777

Dear Dr. Dunn,

The purpose of this letter is to notify you that we are terminating our audit of the Illinois State Board of Education (ISBE). The objective of our audit was to determine whether selected Illinois local educational agencies (LEAs) charged federal grants in proportion to the costs charged to state and local sources of funds for the employer portion of pension contributions. Our audit covered the period July 1, 2003, through June 30, 2004 (2004 fiscal year). We have terminated our audit because (1) the three Illinois LEAs we reviewed (Springfield School District #186, Peoria School District #150, and Rockford School District #205) charged federal accounts in proportion to the costs charged to state and local sources of funds for the employer share of pension costs for the 2004 fiscal year, (2) the Teacher Retirement System (TRS) has a system of internal control in place to provide reasonable assurance that other Illinois LEAs made the required employer share of pension contributions (10.5 percent for the 2004 fiscal year) for salaries charged to federal accounts, and (3) the State of Illinois was required to contribute 13.98 percent of TRS eligible salaries to the TRS for the 2004 fiscal year.

**Methodology**

Before terminating our audit, we performed the following procedures:

1. Obtained and reviewed the Illinois law governing Illinois LEAs' contributions to pension plans.
2. Reviewed the 2004 fiscal year Office of Management and Budget Circular A-133 audit reports and comprehensive annual financial reports for the three LEAs selected for testing

(see item #8) and ISBE's Financial Audit and Compliance Examination for the 2004 fiscal year.<sup>1</sup>

3. Obtained an understanding of the equitable charges clause in Office of Management and Budget Circular A-87. According to A-87, Attachment A, Paragraph C.1.e, to be allowable under federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the LEA.
4. Reviewed the federal regulations relevant to our audit objective, including the Education Department General Administrative Regulations, 34 C.F.R. Parts 77 and 80.
5. Obtained from the U.S. Department of Education (Department) Title I, Part A; Improving Teacher Quality (Title II); Individuals with Disabilities Education Act (IDEA), Part B; and Reading First funding data showing the amounts of funds disbursed by the Department to the ISBE for the 2004 fiscal year.
6. Obtained from ISBE funding data showing the amounts received from the Department for the Title I, Part A; Title II; IDEA, Part B; and Reading First programs and the amounts ISBE allocated to the three LEAs selected for testing (see item #8).
7. Compared ISBE's funding data for the four federal programs to the Department's funding data.
8. Judgmentally selected three LEAs (Springfield School District #186, Peoria School District #150, and Rockford School District #205) from the universe of 816 Illinois LEAs receiving Title I, Part A, allocations for the 2004 fiscal year.
9. Visited ISBE and obtained an understanding of ISBE's knowledge of the Illinois Pension Code, LEAs' awareness of the law, guidance on pension plan contributions provided by ISBE to LEAs, and ISBE's oversight of LEA pension plan contributions.
10. Visited the three judgmentally selected LEAs and interviewed officials to obtain an understanding of the processes used by the LEAs to (a) determine the required share of employer pension plan contributions; (b) allocate Title I, Part A; Title II; IDEA, Part B; and Reading First funds that were used to pay the employer share of pension contributions; and (c) account for Title I, Part A; Title II; IDEA, Part B; and Reading First funds that were used to pay the employer share of pension contributions for the 2004 fiscal year.
11. Obtained funding data from the three LEAs showing receipts and expenditures for the Title I, Part A; Title II; IDEA, Part B; and Reading First programs and compared the data to ISBE funding data.

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<sup>1</sup> We did not review the supporting audit documentation or determine the quality of the work performed for these reports.

12. Reviewed records for the 2004 fiscal year generated by the TRS (a) showing that the three LEAs made their required pension plan contributions for salaries charged to federal accounts and (b) supporting the contribution made by the State of Illinois for its “on-behalf-of” contribution for TRS eligible employees.
13. Interviewed TRS officials to gain an understanding of the process used by the TRS to determine the pension plan contribution rates to be used by Illinois LEAs and the State of Illinois and to obtain an understanding of the responsibility for oversight of pension plan contributions made by Illinois LEAs.

We conducted our work from November 2005 through February 2006 at ISBE’s office in Springfield, Illinois; at the offices of Springfield School District #186, Rockford School District #205, and Peoria School District #150; and our office in Chicago, Illinois. We performed our work in accordance with generally accepted government auditing standards appropriate to the scope of our audit.

#### **Administrative Matters**

Our audit was limited to the work described above and would not necessarily disclose all material weaknesses in ISBE’s oversight of Illinois LEAs’ pension contributions related to salaries charged to federal accounts. Accordingly, the contents of this letter should not be construed as acceptance or approval of ISBE’s oversight of Illinois LEAs’ pension plan contributions. The termination of this audit neither precludes further reviews of this or similar areas by the Office of Inspector General nor does it preclude the U.S. Department of Education from taking further action concerning any aspect of ISBE’s oversight of Illinois LEAs’ pension plan contributions related to salaries charged to federal accounts. The work we performed is not a substitute for any other reviews or audits required by law, license, or accreditation.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports and other documents 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.

**We wish to express appreciation for the cooperation and assistance extended by your staff during the audit. Should you have any further questions regarding our work, please contact Rick Roedel at (312) 886-8653 or Gary Whitman at (312) 886-8658. No response to this letter is required.**

**Sincerely,**

A large black rectangular redaction box covers the signature area of the letter.

**Richard J. Dowd  
Regional Inspector General  
for Audit**

**cc: Bill McCabe, Chief Financial Officer, OCFO (Acting)  
Danny A Harris, Deputy Chief Financial Officer, OCFO  
Sherrice Rucker, Audit Liaison Officer, OCFO  
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