



**U.S. Department of Education  
Office of Inspector General**



# **American Recovery and Reinvestment Act of 2009**

## **Illinois: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs**

### **Final Audit Report**



**Illinois State Capitol Building**

**ED-OIG/A05K0005**

**June 2011**

## **Abbreviations, Acronyms, and Short Forms Used in this Report**

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C.F.R.	Code of Federal Regulations
Chicago	Chicago Public Schools
Department	U.S. Department of Education
East Saint Louis	East Saint Louis Public Schools
ECE	Early Childhood Education
FTE	Full-time equivalent
Governor's Office	Illinois Governor's Office of Management and Budget
Hinsdale	Community Consolidated School District 181
IDEA	Part B of the Individuals with Disabilities Education Act, as amended
ISBE	Illinois State Board of Education
OIG	U.S. Department of Education, Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
Rockford	Rockford Public Schools
SFSF	State Fiscal Stabilization Fund
SFSF-Education	State Fiscal Stabilization Fund-Education Stabilization Fund
SFSF-Government	State Fiscal Stabilization Fund-Government Services Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended
Waukegan	Waukegan Public Schools



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES  
Chicago/Kansas City Audit Region

June 9, 2011

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Dear Sirs:

This **final audit report**, Control Number ED-OIG/A05K0005, presents the results of our audit titled "Illinois: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs." This report incorporates the comments you provided in response to the draft report.

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

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

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

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

**U.S. Department of Education – Office of Inspector General  
Illinois: Use of Funds and Data Quality for Selected  
American Recovery and Reinvestment Act Programs**

Control Number ED-OIG/A05K0005

## **PURPOSE**

The American Recovery and Reinvestment Act of 2009 (Recovery Act) places a heavy emphasis on accountability and transparency and, in doing so, increases the responsibilities of the agencies that are impacted by the Recovery Act. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related Recovery Act funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level, ensuring that recipients understand requirements and have proper controls in place over the administration of and reporting on Recovery Act funds, and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The objectives of our audit were to determine whether Illinois and its subrecipients (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported Recovery Act data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. This report provides the results of the audit we conducted at the Illinois State Board of Education (ISBE), Chicago Public Schools (Chicago), East Saint Louis Public Schools (East Saint Louis), Rockford Public Schools (Rockford), the University of Illinois, and Waukegan Public Schools (Waukegan). We focused our audit on State-level and local-level uses of funds and data quality related to Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (Title I); Part B of the Individuals with Disabilities Education Act, as amended (IDEA); and State Fiscal Stabilization Fund (SFSF) grant funds received through the Recovery Act for the period February 17, 2009, through June 30, 2010. For use of funds, the Background section, page 4, describes the time period during which the expenditures that we reviewed at each subrecipient were made. For data quality, we reviewed data for the quarterly reporting periods that ended September 30, 2009, December 31, 2009, and March 31, 2010.

## **RESULTS IN BRIEF**

Illinois took proactive measures to provide reasonable assurance that it and its subrecipients complied with Recovery Act requirements. These measures included continuous distribution of information and guidance to assist subrecipients in understanding their Recovery Act responsibilities. For example, ISBE distributed relevant information and guidance through weekly Superintendent messages and other reminder communications and held webinars to provide subrecipients with reporting details and requirements. ISBE also required subrecipient administrators to approve data before it could be submitted, prepared detailed Recovery Act reporting guidance and instructions for subrecipients, and modified its existing expenditure reporting system to capture Recovery Act data for reporting purposes. Finally, as of June 2010, ISBE had taken corrective action to address a prior U.S. Department of Education, Office of Inspector General (OIG) audit finding related to remitting interest earned on Federal grant

advances by revising its policies and procedures. ISBE now requires subrecipients to remit interest at least quarterly.

The subrecipients we visited generally expended Recovery Act funds in accordance with applicable laws, regulations, and guidance. However, Illinois could do more to provide reasonable assurance of the appropriate use of Recovery Act funds and the quality of data reported to the Federal government. Our audit disclosed that

- ISBE and its subrecipients did not always follow Federal cash management requirements;
- Illinois and its subrecipients did not always ensure that data reported to the Federal government were accurate, reliable, and complete; and
- three of the five subrecipients that we reviewed charged a small amount of unallowable or inadequately documented costs to Recovery Act grants.

To reduce the likelihood of such problems occurring in the future, Illinois and its subrecipients need to further strengthen their systems of internal control to provide reasonable assurance that

- the time elapsing between the transfer of funds by ISBE and disbursement by the subrecipients is minimized; and
- Illinois collects and reports complete, reliable, and accurate Recovery Act infrastructure<sup>1</sup> expenditures and jobs created and retained data.

We provided the draft of this report to the Illinois Governor's Office of Management and Budget (Governor's Office) and ISBE for review and comment on February 17, 2011. The Governor's Office did not provide comments. In its response to Recommendation 2.1, ISBE did not agree to develop and implement a system to collect and report infrastructure expenditure data for SFSF-Government Services Fund (SFSF-Government) grant funds because it has spent all of its SFSF-Government funds. ISBE did not agree or disagree with the other findings and recommendations but did describe its planned corrective actions to address the findings and recommendations. We summarized ISBE's comments at the end of each finding and included the comments in their entirety as an Enclosure to this report. We did not modify our findings or make any significant changes to the report based on ISBE's comments. However, we did add a new Recommendation 2.2 to address correction of the final reporting of infrastructure expenditure data for SFSF-Government funds.

In the Other Matters section of the draft of this report, we reported that Recovery Act programs might need to be covered by Illinois' Treasury-State Agreement. Illinois' Treasury-State Agreement did not list Recovery Act Title I, IDEA, or SFSF grants as major programs even though Illinois' allocations for each grant exceeded the major program threshold as defined by this agreement. ISBE did not comment on this issue or the two other issues included in the Other Matters section of the draft of this report. However, based on communications that we had with the U.S. Department of the Treasury, we concluded that Illinois' Treasury-State Agreement covering the fiscal year ended June 30, 2009, was not required to include Recovery Act programs because the programs were not identified as major Federal assistance programs in

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<sup>1</sup> Infrastructure is support for tangible assets or structures such as roads and public buildings, including schools.

Illinois' most recent Single Audit.<sup>2</sup> Therefore, we removed from the Other Matters section the suggestion that Recovery Act programs should be covered by Illinois' Treasury-State Agreement.

## BACKGROUND

The Recovery Act was signed into law on February 17, 2009, and had three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster accountability and transparency in government spending. To ensure transparency and accountability of Recovery Act spending, recipients are required to submit quarterly reports on Recovery Act awards, spending, and jobs impact (§ 1512 of the Recovery Act). According to the Office of Management and Budget (OMB), the reports should contain detailed information on the projects and activities funded by the Recovery Act and will provide the public with transparency into how Federal dollars are being spent. The reports also will help drive accountability for the timely, prudent, and effective spending of Recovery Act funds.

We previously conducted an audit of the systems of internal control over Recovery Act funds in Illinois.<sup>3</sup> That audit covered ISBE's and other Illinois agencies' designs for systems of internal control over the administration and use of Recovery Act funds as of October 1, 2009. We concluded that ISBE could improve its cash management procedures and subrecipient monitoring to provide reasonable assurance of compliance with Federal requirements. Specifically, we reported that ISBE did not have an adequate process in place for monitoring cash balances at subrecipients for Recovery Act Title I, IDEA, and SFSF grants. We also reported that two of the three subrecipients visited during the audit (Chicago and Hinsdale) were not tracking SFSF grant expenditures, while one of the three subrecipients (Hinsdale) had not established procedures to ensure that Recovery Act IDEA data were accurate, complete, reliable, and in compliance with Recovery Act reporting requirements.

Illinois was awarded nearly \$3 billion in education-related Recovery Act funds under the Title I, IDEA, and SFSF grants. Recovery Act Title I and IDEA grant funds were awarded to ISBE beginning February 17, 2009, and SFSF grant funds were awarded to the Governor's Office beginning April 17, 2009. Table 1 identifies the amounts awarded as well as the amounts Illinois has received from the Department. As of February 17, 2011, Illinois had received nearly \$2.6 billion, or 89 percent of the funds awarded.

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<sup>2</sup> Treasury regulations at Title 31 Code of Federal Regulations (C.F.R.) § 205.5(e) provide that "Unless specified otherwise, major Federal assistance programs must be determined from the most recent Single Audit data available." All regulatory citations are to the July 1, 2008, volume, unless otherwise noted.

<sup>3</sup> "Systems of Internal Control Over Selected ARRA Funds in the State of Illinois" (ED-OIG/A05J0012, February 23, 2010), which included a review of Chicago, Community Consolidated School District 181 (Hinsdale), and East Saint Louis.

<b>Table 1. Recovery Act Funding for Selected Grants in Illinois, as of February 17, 2011</b>			
<b>Grant</b>	<b>Awarded</b>	<b>Received</b>	<b>Percentage of Award Received (%)</b>
SFSF-Education	\$1,681,130,685	\$1,681,130,685	100.00
SFSF-Government	\$374,041,302	\$374,041,302	100.00
<b>SFSF Subtotal</b>	<b>\$2,055,171,987</b>	<b>\$2,055,171,987</b>	<b>100.00</b>
Title I	\$420,263,561	\$241,798,485	57.53
IDEA	\$506,479,753	\$348,749,744	68.86
<b>Total</b>	<b>\$2,981,915,301</b>	<b>\$2,645,720,216</b>	<b>88.73</b>

The Governor’s Office, through an interagency agreement, designated ISBE to disburse and report on SFSF-Education Stabilization Fund (SFSF-Education) and SFSF-Government funds. The Governor’s Office determined that it would use most of the SFSF-Education and SFSF-Government funds for general State aid payments to subrecipients. Some of the SFSF-Government funds were used for Early Childhood Education (ECE) programs at some subrecipients. Institutions of higher education also received a portion of the fiscal year 2010 SFSF-Education and SFSF-Government funds.

The five subrecipients that we included in this audit were allocated a total of \$937,749,729 in Recovery Act Title I, IDEA, and SFSF grant funds, which is more than 31 percent of the Recovery Act Title I, IDEA, and SFSF grant funds provided to Illinois. Table 2, Recovery Act Allocations and Expenditures by Subrecipient (see page 5), shows the amounts allocated to and received by each of the five subrecipients. Table 2 also includes the amounts and the percentage of the allocated amounts that each subrecipient had expended during the time period reviewed.



<b>Table 2. Recovery Act Allocations and Expenditures by Subrecipient</b>					
<b>Grant</b>	<b>Amount Allocated</b>	<b>Amount Received During Time Period Reviewed</b>	<b>Amount Expended During Time Period Reviewed*</b>	<b>Percentage of Allocation Expended (%)</b>	<b>Time Period Reviewed</b>
<b>Chicago</b>					
Title I	\$260,695,483	\$0	\$42,840,281	16.43	2/17/09-3/31/10
IDEA	\$115,005,351	\$36,533,298	\$35,927,710	31.24	2/17/09-3/31/10
SFSF-Education	\$260,053,385	\$260,053,385	\$260,053,384	100.00	4/17/09-3/31/10
SFSF-Government	\$33,590,625	\$33,590,625	\$33,590,625	100.00	4/17/09-3/31/10
SFSF-Government (ECE portion)	\$111,997,901	\$72,050,373	\$74,133,970	66.19	4/17/09-3/31/10
<b>Subtotal</b>	<b>\$781,342,745</b>	<b>\$402,227,681</b>	<b>\$446,545,970</b>	<b>57.15</b>	
<b>East Saint Louis</b>					
Title I	\$6,392,926	\$1,641,376	\$1,784,295	27.91	2/17/09-6/30/10
IDEA	\$2,307,178	\$444,246	\$167,333	7.25	2/17/09-6/30/10
SFSF-Education	\$23,338,714	\$23,338,714	\$23,338,100	100.00	4/17/09-6/30/10
SFSF-Government	\$2,855,366	\$2,855,366	\$2,855,630	100.00	4/17/09-6/30/10
<b>Subtotal</b>	<b>\$34,894,184</b>	<b>\$28,279,702</b>	<b>\$28,145,358</b>	<b>80.66</b>	
<b>Rockford</b>					
Title I	\$9,209,891	\$5,968,181	\$2,649,572	28.77	2/17/09-3/8/10
IDEA	\$8,069,430	\$4,841,657	\$45,557	0.56	2/17/09-3/8/10
SFSF-Education	\$16,211,091	\$16,211,091	\$16,211,091	100.00	4/17/09-3/8/10
SFSF-Government	\$3,308,457	\$3,308,457	\$3,308,457	100.00	4/17/09-3/8/10
SFSF-Government (ECE)	\$8,563,634	\$2,862,497	\$5,041,014	58.87	4/17/09-3/8/10
<b>Subtotal</b>	<b>\$45,362,503</b>	<b>\$33,191,883</b>	<b>\$27,255,691</b>	<b>60.08</b>	
<b>University of Illinois</b>					
SFSF-Education	\$18,670,800	\$18,670,800	\$18,670,800	100.00	4/17/09-6/30/10
SFSF-Government	\$26,847,800	\$26,847,800	\$26,847,800	100.00	4/17/09-6/30/10
<b>Subtotal</b>	<b>\$45,518,600</b>	<b>\$45,518,600</b>	<b>\$45,518,600</b>	<b>100.00</b>	
<b>Waukegan</b>					
Title I	\$2,718,848	\$1,359,423	\$1,517,249	55.80	2/17/09-3/31/10
IDEA	\$4,204,235	\$1,835,022	\$1,397,450	33.24	2/17/09-3/31/10
SFSF-Education	\$20,952,330	\$20,952,330	\$20,952,329	100.00	4/17/09-3/31/10
SFSF-Government	\$2,756,284	\$2,756,284	\$2,756,284	100.00	4/17/09-3/31/10
<b>Subtotal</b>	<b>\$30,631,697</b>	<b>\$26,903,059</b>	<b>\$26,623,312</b>	<b>86.91</b>	
<b>Grand Total For All Subrecipients Reviewed</b>	<b>\$937,749,729</b>	<b>\$536,120,925</b>	<b>\$574,088,931</b>	<b>61.22</b>	
*Four subrecipients charged to Recovery Act grants expenditures that were incurred before ISBE provided the funds to cover those expenses (but after enactment of the Recovery Act).					

## FINDINGS AND RECOMMENDATIONS

### **FINDING NO. 1 – ISBE and Its Subrecipients Could Strengthen Procedures for Complying with Federal Cash Management Requirements**

Each of the four subrecipients that we reviewed and that received Recovery Act Title I and IDEA funds maintained positive Recovery Act cash balances at the time of additional disbursements by ISBE. Specifically, ISBE disbursed Recovery Act IDEA grant funds to Chicago, Rockford, and Waukegan and Recovery Act Title I grant funds to East Saint Louis and Rockford even though all four subrecipients had positive cash balances for those grants.

ISBE disbursed Recovery Act Title I and IDEA grant funds via the advance payment method based on payment schedules that subrecipients submitted with their grant application budgets. These payment schedules contained each subrecipient's anticipated monthly cash needs based on their budget. Subrecipients could initiate changes to their payment schedules to avoid positive cash balances by contacting ISBE. None of the four subrecipients notified ISBE that they needed to change their payment schedules to avoid having positive cash balances.

The Department's guidance for funds made available under the Recovery Act addresses the fiscal rules for these funds. The April 2009 guidance states that Recovery Act funds made available under the Title I, IDEA, and SFSF programs must follow the requirements set forth in 34 C.F.R. § 80.21(b) and (i).<sup>4</sup> Federal regulations at 34 C.F.R. § 80.21 prescribe the basic standard and the methods under which grantees will make payments to subgrantees. The basic standard is that the procedures for payment will minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. The regulations address two payment methods:

1. **Advances.** Grantees and subgrantees are paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.
2. **Reimbursement.** Reimbursement is the preferred method when the requirements for advances are not met.

### **ISBE's Quarterly Expenditure Reporting Process Did Not Provide Reasonable Assurance of Compliance with Federal Cash Management Requirements**

ISBE did not have an adequate process to monitor subrecipients' cash balances on hand prior to disbursing additional funds according to the subrecipients' payment schedules. ISBE used quarterly expenditure reports submitted by subrecipients to determine whether each subrecipient had positive cash balances at the end of each quarter. If a positive cash balance existed at the

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<sup>4</sup> Guidance referenced includes "Funds for Part B of the Individuals with Disabilities Education Act Made Available Under the American Recovery and Reinvestment Act of 2009"; "Funds Under Title I, Part A of the Elementary and Secondary Education Act of 1965 Made Available Under the American Recovery and Reinvestment Act of 2009"; and "Guidance on the State Fiscal Stabilization Fund Program," all dated April 2009.

end of a quarter, ISBE's policy was to withhold future disbursements for each subrecipient until each positive cash balance had been expended. However, as reported in our February 2010 audit report, titled "Systems of Internal Control Over Selected ARRA Funds in the State of Illinois," ISBE's use of these quarterly expenditure reports did not always ensure that positive cash balances within a quarter were detected prior to the disbursement of additional funds.

As a result, during our current audit,

- Chicago had a Recovery Act IDEA grant cash balance of more than \$5.6 million from March 9, 2010, through March 31, 2010.
- Rockford had a Recovery Act Title I grant cash balance of more than \$2.5 million from January 11, 2010, through February 28, 2010; and a Recovery Act IDEA grant cash balance of more than \$2.4 million from November 19, 2009, through February 28, 2010.
- Waukegan had a Recovery Act Title I grant cash balance of more than \$326,012 from March 9, 2010, through March 22, 2010; and a Recovery Act IDEA grant cash balance of more than \$233,154 from November 17, 2009, through March 26, 2010.
- East Saint Louis had a Recovery Act Title I grant cash balance of more than \$311,000 from February 9, 2010, through March 7, 2010; and a Recovery Act IDEA grant cash balance of more than \$276,000 from June 8, 2010, through June 30, 2010.

ISBE also disbursed Recovery Act funds to East Saint Louis based on a quarterly expenditure report that contained an overstatement of actual expenditures. For the quarterly reporting period ended December 31, 2009, East Saint Louis overstated Recovery Act Title I grant expenditures by \$482,044 and Recovery Act IDEA grant expenditures by \$30,376. ISBE, following its disbursement method that relied on these quarterly expenditure reports, disbursed Recovery Act Title I funds to East Saint Louis, unaware that this disbursement resulted in East Saint Louis having a positive cash balance. When East Saint Louis overstated expenditures in its quarterly expenditure report, ISBE was unable to determine its actual cash position. If ISBE had known that a positive cash balance existed, it would have withheld additional disbursements.

When we notified ISBE of the positive cash balances at the subrecipients, ISBE stated that it has been in the process of implementing corrective action for cash management issues identified in our February 2010 audit. In response to that audit, ISBE stated that it would take the following corrective actions:

1. Release scheduled subrecipient payments at the beginning of the month instead of the end of the prior month to eliminate the risk that a subrecipient will receive funds earlier than intended.
2. Change the subrecipient quarterly expenditure report due date from 30 days to 20 days from the end of the quarter.
3. Change the subrecipient excess cash calculation by using a cash basis determination that does not include outstanding obligations.
4. Apply any unexpended funds (on a cash basis) from a subrecipient's prior year grant to its Federal project for the new fiscal year.

During our current audit, ISBE informed us that it implemented corrective action item one in fiscal year 2010 and would implement corrective action item two beginning with the fiscal year 2011 quarterly expenditure reports. Regarding corrective action items three and four, ISBE is considering moving all Federal grants to a reimbursement method of funding beginning in fiscal year 2012. The reimbursement payment method reimburses subrecipients for expenditures made during the prior month rather than providing funds to subrecipients in advance of their use.

In its corrective action plan responding to our February 2010 audit report, ISBE also stated that it implemented changes to its policies and procedures for remitting interest on advanced Federal grant funds. ISBE revised its “State and Federal Grant Administration Policy and Fiscal Requirements and Procedures” handbook in June 2010 and now requires subrecipients to remit interest earned on at least a quarterly basis, as required by Federal regulations. Although our current audit disclosed that subrecipients still were planning to remit interest at year-end, the data that we reviewed at each subrecipient were for periods prior to each subrecipient being notified of the June 2010 revision of the handbook.

### **Noncompliance with Federal Cash Management Requirements Increases the Risk of Harm to the Federal Interest**

It is important that prime recipients do not draw and disburse Federal funds before subrecipients need the funds. The U.S. Department of the Treasury incurs additional borrowing costs when the prime recipient draws and disburses Federal funds to subrecipients in advance of their immediate cash needs. Because of the Federal deficit, the U.S. Department of the Treasury must borrow the cash needed to fund Federal programs and, as a result, incurs interest costs. It also is important that Federal funds not be drawn and disbursed before subrecipients need the funds because the funds might be more susceptible to misuse when held in local accounts for extended periods. Our past audits and investigations have identified instances involving Federal funds where the systems of internal control were weak, by-passed, or nonexistent, resulting in the misuse or even theft of recipients’ Federal funds.<sup>5</sup>

### **RECOMMENDATIONS**

We recommend that the Chief Financial Officer require ISBE to—

- 1.1 Further strengthen its procedures to accurately identify positive cash balances before approving cash disbursements so that it minimizes the time elapsing between the transfer of funds by the State and disbursement by the subrecipients.
- 1.2 Provide assurance that it implemented its corrective action to calculate and remit interest earned by all subrecipients for the Recovery Act Title I and IDEA grants to the Department in a timely manner.

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<sup>5</sup> “Fiscal Issues Reported in Department OIG Work Related to LEAs and SEAs” (Management Information Report, ED-OIG/X05J0005, July 21, 2009); “An OIG Perspective on Improving Accountability and Integrity in ESEA Programs” (ED-OIG/S09H0007, October 16, 2007).

### **Auditee Comments**

For Recommendation 1.1, ISBE stated that, beginning with fiscal year 2011, it is requiring quarterly expenditure reports to be submitted 20 days following the end of the quarter instead of 30 days. ISBE stated that the earlier due date allows it to assess whether excess cash exists and offset the payments scheduled for the following month prior to vouchering. In addition, on August 31, 2010, a policy decision was made by ISBE's Chief Financial Officer to move towards a reimbursement method for Federal grants in fiscal year 2012, which ISBE stated will eliminate any excess cash held by local educational agencies.

For Recommendation 1.2, ISBE stated that it has revised, expanded, and implemented new guidance on calculating interest earned and remittance in its "State and Federal Grant Administration Policy and Fiscal Requirements and Procedures" handbook. ISBE stated that the internal decision to move to a reimbursement method for all Federal programs in fiscal year 2012 should eliminate this finding completely.

### **OIG Response**

We did not make any changes to the finding or recommendations based on ISBE's comments. Regarding ISBE's comments to Recommendation 1.1, subrecipients providing quarterly expenditure reports 20 days following the end of the quarter instead of 30 days still will not enable ISBE to detect positive cash balances within quarters prior to disbursing additional funds during fiscal year 2011. Implementation of the reimbursement payment method beginning in fiscal year 2012 should prevent ISBE from providing funds to subrecipients when they have positive cash balances. For Recommendation 1.2, ISBE did not provide support for us to confirm implementation of this new guidance.

## **FINDING NO. 2 – Illinois and Its Subrecipients Could Further Strengthen Procedures for Reporting Data That Are Accurate, Reliable, and Complete**

ISBE reported elements on Recovery Act quarterly reports provided to FederalReporting.gov that were not always accurate, reliable, and complete. Data that ISBE submitted for the quarterly reporting period that ended December 31, 2009, included infrastructure expenditures for the Recovery Act IDEA and SFSF-Government grants that were inaccurate. ISBE also submitted inaccurate full-time equivalent (FTE) jobs created and retained data that it received from subrecipients for the quarterly reporting periods that ended September 30, 2009, December 31, 2009, and March 31, 2010.

### **Inaccurate Reporting of Infrastructure Expenditure Information**

Illinois did not have a system in place to collect complete, accurate, and reliable data regarding infrastructure expenditures that subrecipients paid with Recovery Act Title I, IDEA, SFSF-Education, and SFSF-Government grant funds. Our testing did not identify evidence that ISBE reported inaccurate infrastructure expenditure information for the Recovery Act Title I and SFSF-Education grants. However, for the Recovery Act IDEA and SFSF-Government grants, ISBE reported inaccurate infrastructure expenditure information for the quarterly reporting period that ended December 31, 2009.

### ***Recovery Act IDEA Grant***

ISBE reported the total amount of approved, budgeted construction costs for subrecipients as infrastructure expenditures for the quarterly reporting period that ended December 31, 2009. When applying for Recovery Act IDEA funds, subrecipients submitted construction budgets to ISBE's IDEA program department for review and approval. For the quarterly reporting period that ended December 31, 2009, ISBE reported the total dollar amount of the Recovery Act IDEA construction budgets (\$16,648,541) that had been approved as of December 31, 2009, in the "Total Federal ARRA Infrastructure Expenditure" field rather than the amount that had been expended.

Section 1512(c) of Division A of the Recovery Act<sup>6</sup> requires recipients to report the amount of Recovery Act funds received that were expended or obligated for projects or activities, including infrastructure investments made by State and local governments, and states that details on the data elements are required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Pub. L. 109-282). According to "Education Department Recipient Reporting Tip Sheets for IDEA Formula Grant Programs," issued August 28, 2009, infrastructure investments include support for tangible assets or structures such as roads and public buildings (including schools). In addition, Recovery.gov's "Recipient Reporting Data Model V3.0, Final Production Release – for Quarter Ending September 30, 2009," specifies that the "Total Federal ARRA Infrastructure Expenditure" field is for expenditures. It does not give the option of reporting approved, budgeted costs.

Illinois did not have a system in place to collect accurate, reliable, and complete data regarding infrastructure investments paid with Recovery Act funds. ISBE's expenditure reporting system did not allow for subrecipients to specifically identify infrastructure costs versus other expenditures. Therefore, ISBE did not know the total amount of actual infrastructure expenditures and could not report this amount to FederalReporting.gov.

### ***SFSF-Government Grant***

ISBE did not report construction costs as infrastructure expenditures for the quarterly reporting period that ended December 31, 2009. Our review of vendor information showed that one subrecipient used \$1,064,915 in SFSF-Government funds for various construction projects. However, ISBE did not report any infrastructure expenditures in the "Total Federal ARRA Infrastructure Expenditure" field.

Construction costs should be categorized and reported as infrastructure expenditures on quarterly reports. Section 1512(c) of the Recovery Act requires recipients of Recovery Act funds to report, for infrastructure investments made by State and local governments, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under the Recovery Act. According to "Education Department Recipient Reporting Tip Sheets for State Fiscal Stabilization Fund Programs," issued August 28, 2009, infrastructure investments are "support for tangible assets or structures such as roads, public buildings (including schools). . . ."

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<sup>6</sup> All subsequent section references to the Recovery Act in this report are to Division A.

ISBE distributed SFSF-Government funds as general State aid payments, which is Illinois' primary education funding formula. Therefore, it did not require subrecipients to provide a budget detailing how they would use these funds. ISBE expected the funds to be used for operating expenditures, not infrastructure, and was not aware that one subrecipient had expended funds in this manner until the subrecipient reported these vendor payments. After we notified ISBE of this issue, we were provided with a revised Recovery Act quarterly report for SFSF-Government funds, dated July 14, 2010, that reported \$1,211,844 in Recovery Act infrastructure expenditures.<sup>7</sup> However, this \$1,211,844 included infrastructure expenditures for only one subrecipient, and ISBE did not provide any documentation showing that it had established procedures to provide reasonable assurance that it is reporting infrastructure expenditures for all subrecipients.

### **Inaccurate Reporting of Jobs Information**

ISBE and two of the five subrecipients that we tested reported inaccurate jobs created and retained information for Recovery Act grants. For the quarterly reporting periods that ended September 30, 2009, and December 31, 2009, Waukegan did not collect and report to ISBE information for the Recovery Act Title I and IDEA grants regarding jobs created and retained by vendors. For the quarterly reporting period that ended March 31, 2010, the University of Illinois overreported the FTE of jobs created and retained for the SFSF-Education and SFSF-Government grants. ISBE used these data to report FTE data to FederalReporting.gov. Also, for two other subrecipients that we tested (Rockford and Chicago), ISBE did not report revisions to FTE data for the quarterly reporting period that ended December 31, 2009. ISBE did not report these revisions because subrecipients provided them after the March 15, 2010, deadline for Illinois to provide updated FTE data to FederalReporting.gov.

### ***Waukegan***

For the quarterly reporting periods that ended September 30, 2009, and December 31, 2009, Waukegan did not collect and report to ISBE the FTE of all jobs created and retained by Recovery Act Title I and IDEA grants. For these grants, Waukegan reported as created and retained only the number of jobs for Waukegan employees paid with Recovery Act funds, excluding at least 22.6 FTE jobs created and retained by vendors.

Section 1512(c) of the Recovery Act requires recipients of Recovery Act funds to report, among other things, an estimate of the number of jobs created and the number of jobs retained by the project or activity. In addition, the "U.S. Department of Education Clarifying Guidance on American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) Reporting on Jobs Creation Estimates by Recipients," September 2009, Question 1.3, states that "Subrecipients under this program will be expected to contact their vendors, as necessary, to estimate the jobs created or retained as a result of Recovery Act funding."

Waukegan's Director of Special Education Compliance and Monitoring informed us that she was not aware that Waukegan needed to collect jobs data from vendors and include vendor job data in quarterly reports to ISBE. Therefore, the number of FTE that Waukegan reported to ISBE was underreported on the September 30, 2009, and December 31, 2009, quarterly reports. After

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<sup>7</sup> All of these infrastructure expenditures related to the one subrecipient that reported, for the quarter that ended December 31, 2009, using SFSF-Government funds for construction projects.

we discussed this requirement with Waukegan officials, Waukegan provided a list received from vendors identifying 22.6 FTE jobs created and retained for the Recovery Act IDEA grant. However, Waukegan did not provide any documentation that it (1) revised reports to ISBE to include vendor jobs created and retained by the Recovery Act Title I and IDEA grants or (2) changed its procedures to collect and report on data regarding jobs funded by Recovery Act funds provided to vendors.

### *University of Illinois*

For the quarterly reporting period that ended March 31, 2010, the University of Illinois incorrectly calculated jobs created and retained with SFSF-Education and SFSF-Government funds. As a result, the University of Illinois reported at least 36.44 FTE more than it should have reported as created and retained by these funds.

We judgmentally selected the largest pay period by dollar amount for two campuses (Urbana-Champaign and Chicago) for the SFSF-Education and SFSF-Government grants.<sup>8</sup> For both grants, we judgmentally selected samples totaling 22 employees (5 with salaries over \$1,000 for the SFSF-Education and SFSF-Government grants at each campus, plus the employee paid the largest salary for the SFSF-Government grant at each campus) from universes totaling 5,495 employees paid during the selected pay periods. We determined that, for two of the employees, the University of Illinois overreported jobs funded with SFSF. For example, for one of the employees, the University of Illinois used SFSF to pay the employee's salary for the January 16, 2010, through February 15, 2010, pay period. The amount paid was the total of separate salaries due to the employee for two part-time positions equaling 1.0 FTE. In its report for the quarter that ended March 31, 2010, the University of Illinois reported 0.66 FTE for this employee. The University of Illinois should have reported only 0.33 FTE for this employee for this pay period because the SFSF grant paid the salary for a total of 1.0 FTE for this pay period only, which is one-third of the quarterly reporting period. Because we identified problems with 2 of the 22 employees in our sample, we analyzed information regarding FTE that the University of Illinois reported for each of the 5,564 employees paid with the 2 SFSF grants during all pay periods. We identified 216 employees for whom the University of Illinois overreported FTE. For these 216 employees, we calculated that the University of Illinois overstated reported jobs funded by the 2 SFSF grants by at least 36.44 FTE. Therefore, FederalReporting.gov did not include accurate FTE data for Illinois.

Section 1512(c) of the Recovery Act requires recipients of Recovery Act funds to report, among other things, an estimate of the number of jobs created and the number of jobs retained by the project or activity. Also, the December 18, 2009, "Updated Guidance on the American Recovery and Reinvestment Act - Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates (M-10-08)," § 5.2, states that "In calculating [FTE for jobs], the number of actual hours worked in funded jobs are divided by the number of hours representing a full work schedule for the kind of job being estimated." In addition, the August 26, 2010, "U.S. Department of Education Clarifying Guidance on the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5)," Question 3, states that ". . . If an employee is fully funded by [the Recovery Act] and works

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<sup>8</sup> The University of Illinois did not receive any Recovery Act Title I or IDEA funds and used SFSF only for personnel expenditures.



additional hours beyond the full-time schedule that are also funded by [the Recovery Act], the employee would be reported as more than 1 FTE.”

After we notified the University of Illinois of this issue, the University of Illinois agreed that it overstated jobs created and retained and submitted to ISBE a corrected report for the quarterly reporting period that ended March 31, 2010. The University of Illinois provided us the corrected report, dated October 4, 2010, and supporting documentation showing that it reduced the FTE jobs created and retained by the 2 SFSF grants from 2,459.29 to 2,410.30, a decrease of 49 FTE. Because the University of Illinois provided the corrected report to ISBE after the deadline for submitting corrections to FederalReporting.gov for the quarter that ended March 31, 2010, ISBE was unable to provide this updated information to FederalReporting.gov.

### ***ISBE***

For 2 of the subrecipients that we tested, ISBE did not report revisions that would have increased reported jobs by a total of 224.41 FTE. In response to the issuance of “Updated Guidance on the American Recovery and Reinvestment Act - Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates (M-10-08),” ISBE created a new Recovery Act data collection system for subrecipients to report jobs created and retained information as well as vendor payment data. The new Recovery Act data collection tool is a stand-alone system in ISBE’s data collection system. On March 3, 2010, ISBE instructed subrecipients to submit revisions to their jobs data for the quarterly reporting period that ended December 31, 2009. Two of the subrecipients that we visited (Rockford and Chicago) submitted these revisions to ISBE after the March 15, 2010, deadline.

- On April 21, 2010, Rockford reported 141 FTE for the SFSF-Government grant. Rockford originally reported 0 FTE for the quarter, which ISBE included in its quarterly report to FederalReporting.gov.
- On April 22, 2010, Chicago reported 655.93 FTE for the SFSF-Government grant. Chicago originally reported 572.52 FTE for the quarter, which ISBE included in its quarterly report to FederalReporting.gov.

Because subrecipients did not report revisions to jobs created and retained data in a timely manner, ISBE could not report revised FTE information to FederalReporting.gov by the March 15, 2010, deadline. Therefore, FederalReporting.gov did not include accurate jobs created and retained data for Illinois.

Illinois’ system of internal control over reporting Recovery Act data was not sufficient to provide reasonable assurance that subrecipients reported accurate, reliable, and complete jobs data in a timely manner. ISBE stated that it made every effort to submit correct information to FederalReporting.gov in a timely manner, including having its new data collection tool available to subrecipients on March 1, 2010. ISBE attempted to meet the original March 31, 2010, deadline for providing updated FTE data, but the deadline was later changed to March 15, 2010. ISBE submitted updated FTE data to FederalReporting.gov on March 15, 2010, but the data did not include subrecipient revisions provided after that date.

## RECOMMENDATIONS

We recommend that the Deputy Director for Programs, Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services, require Illinois to—

- 2.1 Develop and implement a system to collect and report accurate, reliable, and complete Recovery Act infrastructure expenditure data from subrecipients.
- 2.2 Correct the final reporting of infrastructure expenditure data for SFSF-Government funds, ensuring that infrastructure expenditures for all subrecipients are included.
- 2.3 Ensure subrecipients implement procedures for collecting and reporting, in a timely manner, correct FTE for jobs, including vendor jobs, created and retained by SFSF grant funds.

### Auditee Comments

For Recommendation 2.1, ISBE stated that it has developed and implemented formal procedures related to the collection and reporting of infrastructure costs for Recovery Act IDEA Grant funds. Although ISBE is aware of the reporting rules as they relate to budgeted versus expended infrastructure costs, its current accounting system is not structured to split infrastructure disbursements and expenditures from non-infrastructure disbursements and expenditures. ISBE collects quarterly expenditure reports from the subrecipients that have approved infrastructure costs, but the reports are not collected until 20 days following the end of each quarter. ISBE also stated that, while it cannot report actual expenditures for infrastructure by the 10-day reporting deadline defined in § 1512 of the Recovery Act, it might be able to report expenditures during the correction window allowed by [FederalReporting.gov](http://FederalReporting.gov). ISBE stated that it has fully expended SFSF-Government funds. Therefore, no further action relating to a system to collect infrastructure expenditure data from subrecipients is required.

For Recommendation 2.3, which was Recommendation 2.2 in the draft of this report, ISBE stated that it tells subrecipients on a continuous basis to provide timely FTE data. ISBE's procedures include sending out reminders using the Superintendent's weekly message and monthly broadcasts through its ISBE Web Application Security System. In addition, ISBE makes calls to those subrecipients that have not reported by the established deadline.

### OIG Response

We did not make any changes to the finding based on ISBE's comments. Regarding Recommendation 2.1, ISBE did not agree to develop and implement a system to collect and report infrastructure expenditure data for SFSF-Government funds. However, even though subrecipients have expended all SFSF-Government funds, Illinois still needs to report complete infrastructure expenditure data for all subrecipients to [FederalReporting.gov](http://FederalReporting.gov). For clarity, we added Recommendation 2.2 to address specifically SFSF-Government funds. ISBE also stated that it has developed and implemented procedures to collect and report infrastructure expenditure data for the Recovery Act IDEA grants. However, ISBE did not provide documentation that would allow us to confirm the development and implementation of these procedures and stated that these procedures still will not allow it to timely report infrastructure expenditure data.

Regarding Recommendation 2.3, which was Recommendation 2.2 in the draft of this report, although ISBE described procedures that it implemented to address the recommendation, it did not provide documentation that would allow us to confirm that it has ensured that subrecipients have implemented procedures for collecting and reporting, in a timely manner, correct FTE for jobs, including vendor jobs, created and retained by SFSF grant funds.

### **FINDING NO. 3 – Illinois Subrecipients Generally Spent Recovery Act Funds for Allowable Purposes but Minor Instances of Noncompliance Occurred**

The subrecipients that we visited generally expended their Recovery Act funds in accordance with applicable laws, regulations, and guidance. We did not find any unallowable or inadequately documented costs charged to Recovery Act funds by Rockford or the University of Illinois. However, Chicago and Waukegan used \$11,042 of the \$2,831,329 that we tested for unallowable costs; and Chicago, East Saint Louis, and Waukegan used \$24,273 of the \$2,831,329 that we tested for inadequately documented costs. Table 3 includes all unallowable and inadequately documented costs.

<b>Subrecipient</b>	<b>Grant and Cost Category</b>	<b>Universe</b>	<b>Amount Tested</b>	<b>Allowable</b>	<b>Unallowable</b>	<b>Inadequately Documented</b>
Chicago	Title I Non-Personnel	\$4,054,294	\$1,764,722	\$1,761,988	\$1,042	\$1,692
East Saint Louis	Title I Personnel	\$1,784,295	\$510,246*	\$506,210	\$0	\$4,036
Waukegan	IDEA Personnel	\$349,101	\$14,621	\$5,193	\$0	\$9,428
Waukegan	Title I Personnel	\$44,325	\$9,117	\$0	\$0	\$9,117
Waukegan	IDEA Non-Personnel	\$1,048,349	\$532,623	\$522,623	\$10,000	\$0
<b>Totals</b>		<b>\$7,280,364</b>	<b>\$2,831,329</b>	<b>\$2,796,014</b>	<b>\$11,042</b>	<b>\$24,273</b>

\* Amount includes nine adjusting journal entries totaling \$496,100.

#### **Unallowable Costs**

Two subrecipients used Recovery Act funds for unallowable costs.

- Waukegan charged \$20,000 to the Recovery Act IDEA grant even though there was only one \$10,000 payment owed to one vendor. Waukegan entered the same expense into its accounting system twice and paid it twice. After we brought the duplicate charge to Waukegan’s attention, Waukegan’s Director of Grants and Budgets stated that this occurrence was a clerical error and provided evidence that the duplicate charge was reversed.
- Chicago used Recovery Act Title I grant funds for unallowable costs totaling \$1,042: (a) an hour of bowling at an employee retreat (\$120), (b) tax on meals at a professional development event for which Chicago had tax exempt status (\$45), and

(c) hotel expenses for employees who attended a professional development event but did not actually stay overnight (\$877).

OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments,” provides the requirements for determining the allowability of costs charged to Federal grants by a State. According to “Attachment A, Paragraph C.1,” to be allowable, costs must be reasonable and necessary for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and be adequately documented. “Attachment B, Paragraph 14, Entertainment,” states that costs of entertainment, including amusement, diversion, and social activities are unallowable.

### **Inadequately Documented Costs**

Three subrecipients charged costs to Recovery Act funds without maintaining adequate documentation to support the costs.

- Waukegan did not collect and maintain adequate documentation to support \$18,545 in personnel expenditures. The \$18,545 consisted of \$9,117 charged to Recovery Act Title I funds and \$9,428 charged to Recovery Act IDEA funds. Waukegan did not collect and maintain semi-annual certifications for employees working solely on the Recovery Act and regular Title I grants and the Recovery Act and regular IDEA grants, as required. Waukegan could not demonstrate that each employee funded solely by these Federal grants spent 100 percent of his or her time working on each grant. However, after we notified Waukegan of this deficiency, it provided adequate semi-annual certifications for the employees included in our samples.
- East Saint Louis did not provide adequate documentation to support \$4,036 in Recovery Act Title I grant personnel transactions related to two adjusting journal entries that charged the grant for Teachers’ Retirement System payments. The first, adjusting journal entry 665, charged a total of \$19,320 to the Recovery Act Title I grant. However, the salary amounts recorded in the documentation provided to us, multiplied by the Teachers’ Retirement System rate of 24.59 percent, was only \$16,438, a difference of \$2,882. The second, adjusting journal entry 666, charged a total of \$17,592 to the Recovery Act Title I grant. However, the salary amounts recorded in the documentation provided to us, multiplied by the Teachers’ Retirement System rate of 24.59 percent, was only \$16,438, a difference of \$1,154.
- Chicago did not provide adequate documentation to support \$1,692 in Recovery Act Title I grant non-personnel expenditures for professional development events (\$849 paid for excessive meals and \$843 for travel expenditures). Chicago provided attendance sheets for a professional development retreat. However, the number of meals for which Chicago paid exceeded the number of attendees supported by the attendance sheets. Chicago’s Director of Grants Management and Administration stated that the meals were for individuals who did not sign the attendance sheets and for speakers and presenters. However, Chicago did not provide documentation supporting any additional attendees because it did not have policies and procedures in place to review hotel and other travel agent invoices when travel expenses were pre-paid.

According to OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments Attachment A, Paragraph C.1,” to be allowable, costs must be reasonable and necessary for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and be adequately documented. “Attachment B, Paragraph 8.h. (3),” states, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the time and effort certification. These time and effort certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary for Elementary and Secondary Education, in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services, require ISBE to ensure—

- 3.1 Chicago returns \$1,042 in unallowable costs charged to the Recovery Act Title I grant to the Department and either provides adequate documentation to support \$1,692 in inadequately documented costs charged to the Recovery Act Title I grant or returns that amount to the Department.
- 3.2 East Saint Louis either provides adequate documentation to support \$4,036 in inadequately documented costs charged to the Recovery Act Title I grant or returns that amount to the Department.
- 3.3 Waukegan collects and maintains semi-annual certifications for all employees working on the Recovery Act and regular Title I grants and the Recovery Act and regular IDEA grants.

### **Auditee Comments**

For Recommendations 3.1 and 3.2, ISBE stated that it will work with Chicago and East Saint Louis to obtain documentation to support the identified unallowable costs. If the districts are unable to provide proper documentation, ISBE will request that Chicago return the unallowable costs to the Department and that East Saint Louis corrects its expenditure report to remove the disallowed costs.

For Recommendation 3.3, ISBE stated that it will work with Waukegan to ensure Waukegan's understanding of collecting and maintaining semi-annual certifications for all employees working on the Recovery Act and regular Title I grants and the Recovery Act and regular IDEA grants.

### **OIG Response**

We did not make any changes to the finding and recommendations based on ISBE's comments. ISBE provided its planned corrective action for the three recommendations. However, for Recommendation 3.1, ISBE did not address Chicago's inadequately documented costs. For Recommendation 3.3, simply making sure that Waukegan understands the rules for semi-annual

certifications does not adequately address our recommendation. ISBE needs to ensure that Waukegan collects and maintains semi-annual certifications.

## OTHER MATTERS

During our audit, we identified two issues that we considered important enough to bring to the attention of Illinois and Department officials but not significant enough to include as findings: (1) two subrecipients included inaccurate information on “Study of School-Level Expenditures” reports, and (2) Chicago employees did not follow Chicago Board of Education policies relating to purchases of goods and services.

### **Two Subrecipients Included Inaccurate Information on “Study of School-Level Expenditures Reports”**

Two of the four subrecipients receiving Recovery Act Title I funds that we visited (Waukegan and East Saint Louis) reported inaccurate per-pupil expenditure totals on the “Study of School-Level Expenditures” reports that they provided to ISBE.

#### ***Waukegan***

We reviewed data for 4 of 21 schools and found inaccurate information was reported for 1 of the 4 schools. The total reported salary expenditures for the one school should have been \$18,241,194 rather than the \$18,041,194 reported. This error occurred because Waukegan reported expenditures totaling \$22,842 for one cost category (Function 2120), which was \$200,000 less than the amount supported by source documents (\$222,842). We calculated a per-pupil expenditure of \$4,243, while Waukegan reported \$4,196, a difference of \$47 per pupil.

#### ***East Saint Louis***

We reviewed data for 3 of 21 schools and found inaccurate information reported for all 3 schools.

- School 1: East Saint Louis omitted expenditures totaling \$144,072 from its calculation. The total reported salary expenditures should have been \$9,854,401, rather than the \$9,710,329 reported. We calculated a per-pupil expenditure of \$5,119, while East Saint Louis reported \$5,044, a difference of \$75 per pupil.
- School 2: East Saint Louis omitted expenditures totaling \$74,197 from its calculation. The total reported salary expenditures should have been \$3,547,372, rather than the \$3,473,175 reported. We calculated a per-pupil expenditure of \$11,555, while East Saint Louis reported \$11,313, a difference of \$242 per pupil.
- School 3: East Saint Louis omitted expenditures totaling \$91,832 from its calculation. The total reported salary expenditures should have been \$1,432,152, rather than the \$1,340,320 reported. We calculated a per-pupil expenditure of \$5,344, while East Saint Louis reported \$5,001, a difference of \$343 per pupil.

According to “Recovery Act, Title VIII, Department of Education, Education for the Disadvantaged,” subrecipients receiving Recovery Act Title I funds are required to file with the State Educational Agency, no later than December 1, 2009, a school-by-school listing of per-pupil educational expenditures from State and local sources during academic year 2008-2009. This section also requires each State Educational Agency to report this information to the Department by March 31, 2010. ISBE’s guidance to subrecipients reiterated these requirements.

The Department will use these data to examine the extent to which school-level education resources are distributed equitably within and across subrecipients. Because inaccurate data could cause the Department to make incorrect conclusions regarding the equitable distribution of resources within and across subrecipients, ISBE should take action that provides reasonable assurance that subrecipients provide accurate “Study of School-Level Expenditures” reports. We suggest that ISBE require Waukegan and East Saint Louis to correct the identified inaccuracies and review the rest of their calculations.

### **Chicago Employees Did Not Follow Chicago Board of Education Policies**

While testing Chicago’s compliance with the requirements governing the use of Recovery Act funds, we noted that Chicago employees were not following Chicago Board of Education policies. We reviewed 68 non-personnel transactions charged to Chicago’s Recovery Act Title I funds. Nine had a purchase order that was dated after the invoice. Chapter 7 of the Board Rules of Chicago’s Board of Education provides the rules for procurement and contracting. Section 7-1 states that no purchases shall be made except as provided in the Board Rules, and that no employee not expressly authorized by the Board Rules shall make any purchase on behalf of the Board of Education or enter into any contract of purchase for any apparatus, equipment, supplies, service, repairs, goods, wares, or merchandise. Section 7-2.1 provides that services not required to be awarded through the competitive bid solicitation process may be made by a purchase order charging appropriated funds. Although this issue did not cause the instances of unallowable or inadequately documented costs that we identified, employees being able to purchase goods and services without proper authorization increases the risk of Recovery Act Title I funds being misused.

## **SCOPE AND METHODOLOGY**

The objectives of our audit were to determine whether Illinois and its subrecipients (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported Recovery Act data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. This report provides the results of the audit we conducted at ISBE, Chicago, East Saint Louis, Rockford, the University of Illinois, and Waukegan. We focused our audit on State-level and local-level uses of funds and data quality related to Title I, IDEA, and SFSF grant funds received through the Recovery Act for the period February 17, 2009, through June 30, 2010. For use of funds, the period of expenditures reviewed at each subrecipient varied, depending on the date of our site visits. In the Background section, Table 2, “Recovery Act Allocations and Expenditures by Subrecipient” (see page 4 of this report), describes the time period during which the expenditures that we reviewed at each subrecipient were made. For data quality, we reviewed data that Chicago, East Saint Louis,

Rockford, and Waukegan submitted to ISBE for the quarterly reporting periods that ended September 30, 2009, and December 31, 2009. We also reviewed data that the University of Illinois submitted to ISBE for the quarterly reporting period that ended March 31, 2010.

To accomplish our objectives, we performed the following procedures.

1. Obtained background information about the programs, activities, and organizations being audited.
2. Reviewed the following prior reports to determine whether these reports identified any issues, findings, or recommendations relevant to our objectives: “Illinois State Board of Education’s Oversight of Subrecipients” (ED-OIG/A05I0016); “Systems of Internal Control over Selected ARRA Funds in the State of Illinois” (ED-OIG/A05J0012); “State of Illinois, Illinois State Board of Education Financial Audit and Compliance Examination for the Year Ended June 30, 2008”; “State of Illinois Single Audit Report For the Year Ended June 30, 2008”; “Report of Findings, Title I Monitoring Visit – April 14-18, 2008” (issued to ISBE by the Department’s Student Achievement and School Accountability Programs team); and “Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention” (GAO-10-223, November 2009).
3. Reviewed Recovery Act guidance issued by OMB and the Department, relevant Federal laws and regulations, and relevant OMB Circulars to gain an understanding of the requirements applicable to the use of funds and reporting of data.
4. Obtained, from the Department’s payment system, the amount of Recovery Act Title I, IDEA, and SFSF grant funds ISBE has received.
5. Interviewed various auditee officials and reviewed auditee responses to questionnaires to gain an understanding of the systems of internal control over the use of funds, cash management, and data quality.
6. Tested ISBE’s system of internal control over minimizing the time between receipt of Federal funds and disbursement. We reviewed ISBE’s receipt and disbursement of Recovery Act funds to determine whether positive cash balances might have existed. We also reviewed Chicago’s, East Saint Louis’, Rockford’s, and Waukegan’s receipts and expenditures to determine whether the time between receipt and disbursement of Recovery Act Title I and IDEA grant funds was minimized and to determine whether positive cash balances existed and interest was remitted timely.
7. Obtained from ISBE a list of subrecipients that received Recovery Act Title I, IDEA, and SFSF-Government funds from February 17, 2009, through January 31, 2010, and SFSF-Education funds from February 17, 2009, through March 31, 2010. We used the list to assist us in selecting our sample of subrecipients.
8. Reviewed reports that ISBE sent to FederalReporting.gov for the quarterly reporting periods that ended September 30, 2009, December 31, 2009, and March 31, 2010. We tested various data elements at ISBE, including the reported amounts of subawards, subaward funds disbursed, reported infrastructure expenditures, and FTE of jobs created and retained, to determine whether data ISBE reported to FederalReporting.gov were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements.
9. Reviewed subrecipients’ quarterly expenditure reports and reports on the FTE of jobs for the quarterly reporting periods that ended September 30, 2009, December 31,



2009, and March 31, 2010, including supporting documentation, to determine whether the subrecipients met the requirements of the Recovery Act.

We judgmentally selected five subrecipients (Chicago, East Saint Louis, Rockford, University of Illinois, and Waukegan) to review. We selected Chicago, East Saint Louis, Rockford, and Waukegan from a universe of 736 subrecipients that were allocated Recovery Act Title I funds.<sup>9</sup> We selected the University of Illinois from a universe of 10 institutions of higher education that were allocated SFSF-Education and SFSF-Government grants. We selected these subrecipients based on selected risk factors, including the amount of Recovery Act funds received and expended and prior audit findings.

For each subrecipient, we selected a judgmental sample of personnel and non-personnel transactions for the Recovery Act Title I, IDEA, SFSF-Education, and SFSF-Government grants. We selected these samples to determine whether subrecipients used these funds in accordance with applicable laws, regulations, and guidance. We selected samples judgmentally to ensure that we selected transactions that were generally the largest dollar amounts. To test personnel transactions, we reviewed payroll documentation, paycheck documentation, and personnel files. To test non-personnel transactions, we reviewed purchase orders, invoices, copies of checks, and journal entries. The time periods reviewed for each of the subrecipient's grants are listed in Table 2, "Recovery Act Allocations and Expenditures by Subrecipient," on page 4 of this report. Because we used non-statistical sampling procedures, our judgmental sample results would not necessarily represent the error rates for the corresponding universes.

### **Chicago**

We judgmentally selected samples of personnel and non-personnel transactions. In general, for personnel transactions, we judgmentally selected one of the two largest pay periods by dollar amount for each grant. For the Recovery Act Title I and IDEA grants, we judgmentally selected samples totaling 11 employees (5 employees from Title I and 6 from IDEA with salaries over \$1,000 in the selected pay periods) from universes with a total of 1,443 employees in the selected pay periods. For the SFSF-Education grant, we judgmentally selected 5 employees from the universe of 20 employees with unusually large salary amounts (over \$30,000). For the SFSF-Government grant, we randomly selected samples totaling 10 employees (5 employees each for SFSF-Government and the ECE portion of SFSF-Government) from universes with a total of 3,708 employees in the selected pay periods. For non-personnel transactions for the Recovery Act Title I, IDEA, SFSF-Education grants and the ECE portion of the SFSF-Government grant, we judgmentally selected samples totaling 126 transactions that were large or appeared unusual from universes with a total of 57,077 transactions. Table 4 shows the values of the universes and samples for each grant, as well as the percentage of the universe represented by each sample. There were no other non-personnel transactions for the SFSF-Government grant to test.

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<sup>9</sup> Although our prior audit report (Control Number ED-OIG/A05J0012) had findings related to Hinsdale, we did not select Hinsdale as a subrecipient for the Phase II audit because, as of January 31, 2010, it had not received any Recovery Act Title I or IDEA funds.

<b>Recovery Act Grant</b>	<b>Transaction Type</b>	<b>Universe Amount</b>	<b>Sample Amount</b>	<b>Percentage of Universe Sampled (%)</b>
Title I	Personnel	\$38,785,987	\$20,114	0.05
	Non-personnel	\$4,054,294	\$1,764,722	43.53
IDEA	Personnel	\$35,915,700	\$20,078	0.06
	Non-personnel	\$12,010	\$1,352	11.26
SFSF-Education	Personnel	\$213,342,349	\$134,884	0.06
	Non-personnel	\$46,711,035	\$4,641,465	9.94
SFSF-Government	Personnel	\$33,590,625	\$15,066	0.04
SFSF-Government (ECE portion)	Personnel	\$33,427,014	\$25,764	0.08
	Non-personnel	\$40,706,956	\$1,928,124	4.74

**East Saint Louis**

We judgmentally selected samples of personnel and non-personnel transactions. For personnel transactions, we judgmentally selected the largest pay period by dollar amount for each grant. For the Recovery Act Title I, SFSF-Education, and SFSF-Government grants, we randomly selected samples totaling 20 employees (5 each for Title I and SFSF-Government and 10 for SFSF-Education) from universes with a total of 2,946 employees in the selected pay periods. We also judgmentally selected 9 large adjusting journal entries from a universe of 24 adjusting journal entries for the Recovery Act Title I grant. For non-personnel transactions for the Recovery Act IDEA grant, we judgmentally selected a sample of 7 transactions from a universe of 23. These 7 transactions represented the largest dollar value transaction for each vendor. The Recovery Act IDEA grant was the only program for which funds were used for non-personnel transactions and there were no personnel transactions for the Recovery Act IDEA grant. Table 5 shows the values of the universes and samples for each grant, as well as the percentage of the value of the universe represented by each sample.

<b>Recovery Act Grant</b>	<b>Transaction Type</b>	<b>Universe Amount</b>	<b>Sample Amount</b>	<b>Percentage of Universe Sampled (%)</b>
Title I	Personnel	\$1,784,295	\$510,246	28.60
IDEA	Non-personnel	\$167,333	\$164,762	98.46
SFSF-Education	Personnel	\$23,338,100	\$39,560	0.17
SFSF-Government	Personnel	\$2,855,630	\$11,692	0.41

**Rockford**

We judgmentally selected samples of personnel and non-personnel transactions. In general, for personnel transactions for each Recovery Act grant, we judgmentally selected the largest pay period by dollar amount. For all grants, we selected samples totaling 44 employees (we randomly selected 5 for Title I, and 10 each for SFSF-Education, SFSF-Government, and the ECE portion of SFSF-Government; and judgmentally selected all 9 for IDEA) from universes with a total of 1,469 employees in the selected pay periods. For non-personnel transactions for

all Recovery Act grants, we judgmentally selected samples totaling 56 transactions that were large or appeared unusual from universes with a total of 511 transactions. For the Recovery Act IDEA grant, because the universes for personnel and non-personnel transactions were so small, we judgmentally selected all nine personnel transactions and all four non-personnel transactions for testing. Table 6 shows the values of the universes and samples for each grant, as well as the percentage of the value of the universe represented by each sample. There were no non-personnel transactions to test for the SFSF-Education and SFSF-Government grants.

<b>Table 6. Universe and Sampling Information for Rockford</b>				
<b>Recovery Act Grant</b>	<b>Transaction Type</b>	<b>Universe Amount</b>	<b>Sample Amount</b>	<b>Percentage of Universe Sampled (%)</b>
Title I	Personnel	\$25,044	\$674	2.69
	Non-personnel	\$2,624,528	\$1,517,111	57.81
IDEA	Personnel	\$19,010	\$19,010	100.00
	Non-personnel	\$26,548	\$26,548	100.00
SFSF-Education	Personnel	\$16,211,091	\$231,320	1.43
SFSF-Government	Personnel	\$3,308,457	\$64,969	1.96
SFSF-Government (ECE portion)	Personnel	\$4,244,826	\$31,244	0.74
	Non-personnel	\$796,188	\$340,507	42.77

**University of Illinois**

We judgmentally selected the largest pay period by dollar amount for two campuses (Urbana-Champaign and Chicago) for the SFSF-Education and SFSF-Government grants.<sup>10</sup> For both grants, we judgmentally selected samples totaling 22 employees (5 each with salaries over \$1,000 for SFSF-Education and SFSF-Government at each campus, plus the employee paid the largest salary for the SFSF-Government grant at each campus) from universes with a total of 5,495 employees in the selected pay periods. Table 7 shows the values of the universes and samples for each grant, as well as the percentage of the universe represented by the sample.

<b>Table 7. Universe and Sampling Information for University of Illinois</b>				
<b>Recovery Act Grant</b>	<b>Transaction Type</b>	<b>Universe Amount</b>	<b>Sample Amount</b>	<b>Percentage of Universe Sampled (%)</b>
SFSF-Education	Personnel	\$18,670,800	\$25,485	0.14
SFSF-Government	Personnel	\$26,847,800	\$90,877	0.34

**Waukegan**

We judgmentally selected samples of personnel and non-personnel transactions. In general, for personnel transactions for each Recovery Act grant, we judgmentally selected the largest pay period by dollar amount. For all Recovery Act grants, we selected samples totaling 33 employees from universes with a total of 1,731 employees in the selected pay periods. We

<sup>10</sup> The University of Illinois did not receive any Recovery Act Title I or IDEA funds and used SFSF funds only for personnel expenditures.

randomly selected 10 for IDEA, 15 for SFSF-Education, and 5 for SFSF-Government; and we judgmentally selected all 3 employees for Title I. For non-personnel transactions for the Recovery Act Title I, IDEA, and SFSF-Education grants, we judgmentally selected samples totaling 63 transactions that were large or appeared unusual from universes with a total of 308 transactions. Table 8 shows the values of the universes and samples for each Recovery act grant, as well as the percentage of the universe represented by each sample. There were not any non-personnel transactions to test for the SFSF-Government grant.

<b>Table 8. Universe and Sampling Information for Waukegan</b>				
<b>Recovery Act Grant</b>	<b>Transaction Type</b>	<b>Universe Amount</b>	<b>Sample Amount</b>	<b>Percentage of Universe Sampled (%)</b>
Title I	Personnel	\$44,325	\$9,117	20.57
	Non-personnel	\$1,472,924	\$908,053	61.65
IDEA	Personnel	\$349,101	\$14,621	4.19
	Non-personnel	\$1,048,349	\$532,623	50.81
SFSF-Education	Personnel	\$18,208,309	\$63,895	0.35
	Non-personnel	\$265,730	\$169,956	63.96
SFSF-Government	Personnel	\$2,531,837	\$10,029	0.40

We also relied, in part, on computer-processed data from ISBE’s Recovery Act reporting system. To determine whether the computer-processed data were reliable, we relied on the limited understanding gained in our previous audit of ISBE’s systems of internal control over Recovery Act funds, along with additional interviews, reviews of system procedures, and limited data testing performed during this audit. We analyzed quarterly reporting data entered into ISBE’s system for the reporting periods that ended September 30, 2009, December 31, 2009, and March 31, 2010. We performed various logic tests on the data, and our review did not reveal any missing data that would indicate the data were not reliable. The relationships between the data elements were logical, and no dates were outside of valid time frames or in an illogical progression.

To analyze reporting data, we compared selected subrecipient data elements to the corresponding prime recipient data elements and ensured that the data contained in the Recovery Act reporting systems were accurately reported to FederalReporting.gov. At the subrecipient level, we compared the data for subaward, subaward funds disbursed, and jobs to corroborating documentation maintained by the subrecipients, if applicable. Corroborating documents included vendor invoices, purchase orders, and cancelled checks. We also relied on general ledgers from subrecipients’ accounting systems to obtain universes of transactions and select samples to test. We traced sample transactions to source documents and determined that they were supported by documentation. Based on our assessment and comparison of selected data elements, revenues, and expenditures to source documents, we concluded that the computer-processed data were sufficiently reliable for the purposes of our audit.

We performed this audit at ISBE (Springfield, Illinois), Chicago Public Schools (Chicago, Illinois), East Saint Louis Public Schools (East Saint Louis, Illinois), Rockford Public Schools (Rockford, Illinois), the University of Illinois (Urbana-Champaign and Chicago, Illinois),

Waukegan Public Schools (Waukegan, Illinois), and our offices, from February through December 2010. We discussed the results of our audit with ISBE officials on November 10, 2010. We discussed the results of our audit with subrecipient officials as follows: Rockford and Waukegan on October 18, 2010; Chicago and the University of Illinois on November 4, 2010; and East Saint Louis on November 17, 2010.

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.

**Enclosure:**  
**Auditee Comments**

Note: The original version of ISBE's letter below included ISBE's letterhead.

March 10, 2011

Gary D. Whitman  
Regional Inspector General for Audit  
U.S. Department of Education, Office of Inspector General  
500 West Madison Street, Suite 1414  
Chicago, IL 60661

Dear Mr. Whitman:

On February 17, 2011, we received your draft audit report, Control Number ED-OIG/A05K0005, for your audit title *Illinois: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs*. Enclosed you will find the requested responses to your findings and recommendations.

If you require further information or clarification, please contact Melissa Oller, Chief Internal Auditor, at 217/782-2237 or by email at [moller@isbe.net](mailto:moller@isbe.net).

Sincerely,

/s/

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

Enclosure

cc: David Vaught

ARRA Draft Audit Report  
ED OIG/A05K0005  
February 2011

## **Recommendations and Responses**

### **Finding No.1: ISBE and Its Subrecipients Could Strengthen Procedures for Complying with Federal Cash Management Requirements**

#### **Recommendation:**

1.1 Further strengthen its procedures to accurately identify positive cash balances before approving cash disbursements so that it minimizes the time elapsing between the transfer of funds by the State and disbursement by the subrecipients.

#### **ISBE Response:**

Beginning with FY 2011, ISBE is requiring quarterly expenditure reports to be submitted 20 days following the end of the quarter instead of 30 days. The earlier due date allows the agency to assess whether excess cash exists and offset the payments scheduled for the following month prior to vouchering. In addition, on August 31, 2010 a policy decision was made by ISBE's Chief Financial Officer to move towards a reimbursement method for federal grants in FY 2012, which will eliminate any excess cash held by LEAs.

#### **Recommendation:**

1.2 Ensure that it implemented its corrective action to calculate and remit interest earned, by all subrecipients for the Recovery Act Title I and IDEA grants, to the Department in a timely manner.

#### **ISBE Response:**

ISBE has revised, expanded and implemented new guidance on calculating interest earned and remittance in the State and Federal Grant Fiscal Policy and Procedures. Again, it is hoped that the internal decision to move to a reimbursement method for all federal programs in FY 2012 will eliminate this finding completely.

### **Finding No. 2: ISBE and Its Subrecipients Could Further Strengthen Procedures for Reporting Date That Are Accurate, Reliable and Complete.**

#### **Recommendation:**

2.1 Develop and implement a system to collect and report accurate, reliable, and complete Recovery Act infrastructure expenditure data from subrecipients.



**ISBE Response:**

ISBE has developed and implemented formal procedures related to the collection and reporting of infrastructure costs for Recovery Act IDEA Grant funds. ISBE is aware of the reporting rules as they relate to budgeted versus expended. The current agency accounting system that is responsible for grant payments (i.e. Financial Reimbursement Information System or FRIS) is not structured to split infrastructure disbursements/expenditures from regular IDEA Part B disbursements/expenditures. Illinois has special education cooperatives that contain various numbers of member districts. The cooperative submits an aggregate ARRA IDEA Part B budget application for themselves and their member districts that contain a variety of expenditures (e.g. salaries, benefits, supplies, equipment, professional development, nonpublic school expenditures etc. along with approved infrastructure costs). The cooperative also completes a monthly payment schedule which reflects the amount of funds the cooperative needs each month for actual expenditures. Monthly payment schedules do not distinguish between how much is being distributed each month for infrastructure costs apart from other costs. ISBE does collect quarterly expenditure reports from the local education agencies that have approved infrastructure costs; however, the reports are not collected until 20 days following the end of each quarter. While ISBE cannot report actual expenditures for infrastructure by the 10 day reporting deadline defined in the Section 1512 we may be able to report expenditures during the correction window allowed on the FederalReporting.gov.site.

ISBE has fully expended SFSF government services funds; therefore, no further action relating to a system to collect infrastructure expenditure data from subrecipients would be required.

**Recommendation:**

2.2 Ensure subrecipients implement procedures for collecting and reporting, in a timely manner, correct numbers of FTE for jobs, including vendor jobs.

**ISBE Response:**

ISBE communicates on a continuous basis to the subrecipients the need to provide timely FTE for jobs. ISBE's procedures include sending out reminders utilizing the Superintendent's weekly message and monthly broadcasts through our ISBE Web Application Security System. In addition, ISBE makes calls to those subrecipients that have not reported by the established deadline.

**Finding No.3: Subrecipients Generally Spent Recovery Act Funds for Allowable Purposes but Minor Instances of Noncompliance Occurred.**

**Recommendation:**

3.1 Chicago returns \$1,042 in unallowable costs charged to the Recovery Act Title I grant to the Department and either provides adequate documentation to support \$1,692 in inadequately documented costs charged to the Recovery Act Title I grant or returns that amount to the Department.

**ISBE Response:**

ISBE will work with Chicago to obtain adequate documentation to support the identified unallowable costs. If the district is unable to provide proper documentation, ISBE will request Chicago return the unallowable costs to the Department.

**Recommendation:**

3.2 East Saint Louis either provides adequate documentation to support \$4,036 in inadequately documented costs charged to the Recovery Act Title I grant or returns that amount to the Department.

**ISBE Response:**

ISBE will work with East Saint Louis to obtain adequate documentation to support the identified unallowable costs. If the district is unable to provide proper documentation, ISBE will request that East Saint Louis correct their expenditure report and remove the disallowed costs.

**Recommendation:**

3.3 Waukegan collects and maintains semi-annual certifications for all employees working on the Recovery Act and regular Title I grants and the Recovery Act and regular IDEA grants.

**ISBE Response:**

ISBE will work with Waukegan to ensure their understanding of collecting and maintaining semi-annual certifications for all employees working on the Recovery Act and regular Title I grants as well as the Recovery Act and regular IDEA grants.

**Anyone knowing of fraud, waste, or abuse involving  
U.S. Department of Education funds or programs  
should call, write, or e-mail the Office of Inspector General.**

**Call toll-free:**

The Inspector General Hotline  
1-800-MISUSED (1-800-647-8733)

**Or write:**

Inspector General Hotline  
U.S. Department of Education  
Office of Inspector General  
400 Maryland Ave., S.W.  
Washington, DC 20202

**Or e-mail:**

[oig.hotline@ed.gov](mailto:oig.hotline@ed.gov)

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