

# LEGISLATIVE AUDIT COMMISSION



Review of  
State Board of Education  
Two Years Ended June 30, 2012

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**REVIEW: 4407**  
**STATE BOARD OF EDUCATION**  
**TWO YEARS ENDED JUNE 30, 2012**

**FINDINGS/RECOMMENDATIONS - 10**

**ACCEPTED - 8**  
**IMPLEMENTED - 2**

**REPEATED RECOMMENDATIONS - 3**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7**

This review summarizes the auditors' reports on the compliance examination of the State Board of Education for the two years ended June 30, 2012, filed with the Legislative Audit Commission on May 15, 2013, and the financial audit for the year ended June 30, 2012, filed with the Audit Commission on February 21, 2013. The auditors stated the financial statements were fairly stated.

The State Board of Education was organized to provide leadership, assistance, resources and advocacy so that every student is prepared to succeed in careers and postsecondary education, and share accountability for doing so with districts and schools. The Illinois State Board of Education consists of nine members who are appointed by the Governor with the consent of the Senate. The Governor appoints the Chair of the Board with the advice and consent of the Senate. The Board appoints the State Superintendent of Education.

The current State Superintendent of Education is Dr. Christopher Koch. Dr. Koch was the State Superintendent during the two-year audit period. He was appointed to the position on December 1, 2006.

The average number of employees and average salary per employee at June 30 of the years indicated was:

<b>Employee</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<i>State operating &amp; trust funds</i>	275	282	296
<i>Federal trust funds</i>	177	186	195
<b>TOTAL</b>	<b>452</b>	<b>468</b>	<b>491</b>
<b>Average salary per employee</b>	<b>\$69,144</b>	<b>\$69,218</b>	<b>\$67,515</b>

**Service Efforts and Accomplishments**

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Total school enrollment for 2011-2012 was 2,321,453, which included 2,087,628 in public schools and 233,825 in nonpublic schools. There were 871 operating public school districts and 4,272 public schools and 1,468 nonpublic schools. In public schools, 50.7% of students were white, 18.2% were black, 23.6% were Hispanic, and 4.2% were Asian. More than 207,400 students (9.4%) had limited English proficiency. The following table summarizes some information about public schools by year.

	2012	2011	2010
<i>Total Number of full-time equivalent teachers</i>	127,830	128,262	132,502
<i>Average years of experience</i>	12.9	13.2	12.7
<i>Students per teacher</i>	18.9	18.8	18.2
<i>Students per administrator</i>	205.0	211.3	203.8
<i>Average teacher salary</i>	\$66,614	\$64,978	\$63,296
<i>Average administrator salary</i>	\$110,870	\$109,759	\$109,091
<i>Student attendance rate</i>	94.4%	94.0%	93.9%
<i>Student graduation rate</i>	82.3%	83.8%	87.8%

### Expenditures From Appropriations

The General Assembly appropriated State and federal funds in excess of \$10.5 billion to the State Board of Education for the year ended June 30, 2012. A summary of the State Board of Education's total appropriations and expenditures for FY12, FY11 and FY10 appears in Appendix A.

Total expenditures from appropriated funds decreased from almost \$9.297 billion in FY11 to \$8.835 billion in FY12. This represents a \$462 million decrease, or 4.9%, from FY11 to FY12. Of the total expenditures in FY12, 29.4% were from the General Revenue Fund; 3.5% from the Education Assistance Fund; 43.3% from the Common School Fund, 7.3% from the Federal Department of Agriculture Fund, 15.7% from the U.S. Department of Education; and 0.8% from other funds. Significant variations in expenditures occurred between FY11 and FY12 were as follows:

- The \$300 million increase in GRF was due to a shift in appropriation which resulted in a \$293 million decrease in the Education Assistance Fund.
- The \$177 million decrease in the Common School Fund for awards and grants.
- The \$338 million decrease in Federal Department of Education Fund was due to the end of ARRA funds.
- \$6 million decrease in Drivers Education Fund due to reduction in appropriation when the anticipated increase in traffic supervision fee did not materialize in FY11.
- The \$11.5 million in funding from Personal Property Replacement Fund, newly established in FY12 to cover expenditures of the Regional Superintendents.
- The \$32 million increase in federal Department of Agriculture for awards and grants.

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Lapse period expenditures totaled \$429.5 million, 4.8% of total FY12 expenditures.

### **Operating Expenditures**

Appendix B is a comparison of operating expenditures for FY10-FY12 from appropriated funds. Total operating expenditures for administrative purposes increased by \$21.6 million, from \$74.1 million in FY11, to \$95.7 million in FY12. The explanation in the audit report stated that the increase in personal services and contractual services was due to appropriation for these items in FY12, which was paid from a Lump Sum appropriation in FY11. However, the lump sum expenditures were almost identical in FY11 and FY12 at \$43.53 million and \$43.59 million, respectively.

### **Distributive Expenditures by Fund**

Appendix C summarizes distributive expenditures by major program category. This information came from 2013 and 2014 budget documents. Total distributive expenditures decreased \$476 million to \$8.8 billion in FY12 compared to \$9.28 billion in FY11 primarily due to the phase out of federal ARRA funds. Significant changes in distributive expenditures were as follows:

- \$152 million decrease in General State Aid;
- \$32 million increase in Child Nutrition;
- \$50 million increase in ADA-Individuals with Disabilities;
- \$46 million decrease in No Child Left Behind;
- \$128 million decrease in Title I ARRA; and
- \$185 million decrease in Federal Recovery.

### **Property and Equipment**

Appendix D is a summary of property and equipment transactions of the State Board of Education during the period under review. The balance increased from \$12.9 million as of June 30, 2011 to \$13.1 million as of June 30, 2012. Purchases of equipment accounted for the increase.

### **Accounts Receivable**

Appendix E is a summary of accounts receivable of the State Board of Education. Accounts receivable as of June 30, 2012 stood at \$382,408,000. The accounts receivable consist mainly of reimbursement or formula allocation amounts due to SBE arising from its administration of federal and State grant awards. The principal grantors are agencies of the federal government and other State agencies.

### **Accountants' Findings and Recommendations**

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Condensed below are the 10 findings and recommendations, three repeated, presented in the audit report. The following responses are classified based on updated information provided by Dr. Christopher Koch, State Superintendent of Education and Melissa Oller, Chief Internal Auditor, via electronic mail received September 30, 2013.

### Accepted or Implemented

1. **Review current process for preparation and review of the annual financial statements to ensure that financial information is complete and accurate in accordance with generally accepted accounting principles (GAAP). Also, establish procedures to determine the proper reporting period for the expenditure amounts reported by subrecipients through the lapse period ending August 31. (Repeated-2011)**

**Finding:** The Illinois State Board of Education (Agency) did not identify or prevent misstatements in the Generally Accepted Accounting Principles (GAAP) Reporting Package or the draft financial statements provided to auditors. During a review of the GAAP Reporting Package submitted by the Agency to the Office of the State Comptroller and the draft financial statements, auditors noted the following:

For 33 subrecipients selected for testing, grant expenditures totaling \$2,982,490 for obligations incurred during FY13 were recorded as FY12 expenditures. Agency officials stated they recorded the expenditures in FY12 based on the assumption that the majority of the expenditures reported by the subrecipients through August 31, 2012 pertained to FY12 activities. This assumption was based on the Agency's knowledge that it is normal operating procedure for school districts to pay obligations during the lapse period for items such as payroll and supplies incurred through June 30; however, the Agency did not obtain documentation from subrecipients to determine whether a legal obligation existed at June 30 when charging vouchers to FY12 or recording the expenditures and related liability. This resulted in some expenditures not being charged to or reported in the correct fiscal year. When the sample error rate was projected to the population, the total liability overstatement was estimated to be \$4,706,739.

**Updated Response:** Accepted. The Agency agrees with this finding and has taken the following steps to resolve the identified errors. The Agency has implemented modifications to the Electronic Expenditure Reporting System. Beginning with all fiscal year 2013 federal grant budget based programs, Local Education Agencies (LEAs) were allowed to enter and confirm outstanding obligations on all June 30 required expenditure reports. Further, as cumulative cash basis expenditure reports were submitted for periods after June 30, LEAs were required to split and confirm the calculated payment to reflect the portion attributed to the liquidation of obligations as of June 30 and prior from the portion attributed to expenditures for activities and obligations that occur July 1 and later. The fiscal year distinction was also required and confirmed for any advances that were entered by the LEAs. The Agency modified the State and Federal Grant Administration Policy, Fiscal

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Requirements and Procedures to reflect these changes as well as communicated the new requirements via webinars and other Agency communication channels to all LEAs that submitted June 30 expenditure reports. In addition, the Agency will ensure that the liability for the reorganization incentive liability will be classified properly on future financial statements.

### **2. Comply with mandates or seek legislative changes to eliminate certain statutory requirements. Further, identify all obsolete mandates and seek their repeal. (Repeated-2000)**

**Finding:** ISBE did not comply with or seek repeal of obsolete duties mandated by State statute. During testing of statutory mandates, auditors noted the following:

- The Agency did not develop and coordinate the Illinois Agenda for Cost-Effectiveness in Education to utilize untapped resources to improve educational achievement and to ensure success of vital initiatives. Management stated the Fund was established in 1990 and dissolved in 1992, but never had any activity. Agency officials subsequently stated that a repeal of this mandate is planned in the near future.
- The Agency did not establish a Division of Conservation Education separately within the Agency. In 2002, Executive Order No. 3 abolished rights, powers, duties and functions vested by law in the Advisory Board for Conservation. The Executive Order did not include specific reference to repeal the statutory language creating the Division of Conservation Education. Agency officials stated they failed to propose the repeal of this mandate at the time, as the related Advisory Board for Conservation Education and its corresponding functions were abolished.
- The Agency did not require entities to design programs which provide continuing education to update or improve a teacher's skill or knowledge in order to maintain a high level of performance. Although a statutory change was introduced under House Bill 5826 in fiscal year 2012, the bill did not pass.

**Response:** Accepted. The Agency will continue to seek legislative changes to eliminate these statutory requirements.

### **Accepted or Implemented - continued**

### **3. Identify and reallocate resources or seek legislative amendment promptly to ensure compliance with the School Code. (Repeated-2010)**

**Finding:** The Agency did not take actions on all the schools on academic watch status after three years following placement in such status.

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During testing of statutory mandates, auditors noted 526 schools from 139 school districts had been on academic watch status for four to ten years by the end of the 2010-2011 school year, and 556 schools from 151 school districts had been on academic watch status for four to 11 years by the end of the 2011-2012 school year. The Agency took action on two school districts; however, the Agency had not taken the required action on the remaining schools and school districts noted after three years on such status.

Agency officials stated they failed to take action on schools that remained on academic watch status after three years due to lack of statutory clarity, resources, and litigation against the Agency for taking action in one of the two districts involved.

**Updated Response:** Accepted. ISBE has begun the process of establishing the Unit for District Oversight and Accountability to intervene in school districts. The Agency sought a legislative amendment during the audit period under House Bill 3022 regarding requirements for Schools on the Academic Watch Status, which did not pass. Senate Bill 2340 was introduced in the spring of 2013 to clarify the current statute. The 2013 legislation did not pass, but ISBE will continue to seek change in FY14. The Agency continues to work through the legislative process as well as review available resources.

#### **4. Consider alternative ways to ensure compliance with the School Code, or identify and reallocate resources.**

**Finding:** The Agency did not adequately perform an audit of all claims by school districts for State moneys.

During a review of 40 school districts receiving State moneys for various school programs during FY11 and FY12, auditors noted that no audit of claims was ever performed by the Agency for nine of 40 school districts tested. The Agency distributed a total of \$6.2 billion in FY12 to approximately 870 school districts.

Agency officials stated that the condition noted above was due to staffing constraints of the Agency division responsible for performing the on-site monitoring audit of school districts.

**Updated Response:** Accepted. The Agency currently utilizes an annual risk based model in order to select the highest risk local education agencies and related programs to be reviewed with the resources available. ISBE is reviewing legislation and will be proposing a legislative amendment.

#### **5. Implement procedures to review and check the accuracy of the information included in the annual report prior to filing.**

**Finding:** The data reported in the Agency's 2011 Annual Report relating to the reasons for exiting Limited English Proficient (LEP) Programs were inaccurate.

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When the auditors traced the reported information in the annual report from the supporting files, they noted the following:

- Program exit codes for 20 of 40 sample students were not reported properly in the annual report; and
- Nine of 40 sample students reported by schools as dropped out or graduated from school were not correspondingly reported as exited from the LEP Programs in the annual report.

In addition, during a review of the support for the 2011 Annual Report for the reasons for exiting the LEP Programs, auditors noted that program exit codes were not properly summarized. A total of 1,493 students classified in the 2011 Annual Report as either dropped out, graduated, transferred, withdrawn by parents, not exited or others should have been classified as transitioned while 2,540 students were classified as transitioned, but should have been either dropped out, graduated, transferred or others.

A corrected schedule was generated by the Agency. The revised schedule showed the following differences from the 2011 Annual Report:

- Transitioned overstated by 1,047 (4%);
- Withdrawn by parents understated by 132 (4%);
- Graduated understated by 1,714 (1058%);
- Transferred understated by 7,975 (1307%);
- Dropped out understated by 1,244 (1367%);
- Others overstated by 3,709 (85%); and
- Not exited overstated by 6,309 (4%).

Agency officials stated that the reporting errors noted were due to weaknesses in the practices and procedures used in the preparation of the report.

**Updated Response:** Accepted. In September 2012, the Agency identified the necessary changes in practice to ensure accurate information is disclosed in the annual report and documented the new approved standard practices. The Agency continues with the implementation of procedures to review and check the accuracy of information included in the annual report against these new approved standard practices.

### **Accepted or Implemented - continued**

- 6. Work with the Governor's Office to timely fill any vacancy on the Board. In addition, continue to work with the Governor's Office to ensure that reappointments of members with expired terms are made in a timely manner.**

**Finding:** The Agency member appointments or reappointments had not been made as required by the School Code.

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During testing of statutory mandates, auditors noted that as of the end of FY12, the Agency's Board had only seven members and a chairperson appointed by the Governor, leaving the Agency's Board with one vacancy. This vacancy was due to the resignation of a Board member on October 11, 2011. In addition, four of the seven Board members served with expired terms since January 12, 2011; three of which were subsequently reappointed by the Governor on August 14, 2012.

Agency officials stated that the vacancy in the Board can only be filled by the Governor and is not within the Agency's authority, and they have been in constant communication with the Governor's Office for appointment/reappointment of Board members.

**Updated Response:** Accepted. ISBE currently has one vacancy and will continue to reach out to the Governor's Office to request an appointment be made in order to bring the Board to full membership. The Agency will continue to interact with the Governor's Office when Board member's appointments are expiring.

### **7. Include all required information in the Illinois Charter School Biennial Report to ensure compliance with the School Code.**

**Finding:** The Agency's 2012 Illinois Charter School Biennial Report did not include the new requirements of the School Code.

During a review, auditors noted that the Agency submitted the 2009-2010 and 2010-2011 Illinois Charter School Biennial Report to the General Assembly and the Governor on the required due date (January 20, 2012). The 2012 Report did not include new requirements that took effect on July 20, 2011 related to charter schools' progress, financial performance, and functions provided.

Agency personnel stated that because this amendatory Act did not go into effect until late July 2011, and the State Charter School Commission was not appointed until the end of September 2011, Agency staff did not have sufficient time to promulgate rules for this new data collection and/or collect such information in time for incorporation in the 2012 Report.

**Updated Response:** Accepted. ISBE is in the process of collecting the required information by September 30, 2013, as mandated in the statute. This information will be disclosed in the 2014 Illinois Charter School Biennial Report.

### **8. Ensure that an active Advisory Committee is re-established and maintained to comply with the provisions of the Critical Health Problems and Comprehensive Health Education Act.**

**Finding:** The Agency did not comply with the Critical Health Problems and Comprehensive Health Education Act regarding the maintenance of an active Advisory Committee.

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The required Advisory Committee had been dormant since April 2002. In addition, the terms of appointment of the members expired six to ten years ago and no successors were appointed as required by the Act.

Subsequent to audit inquiries, the Agency began the process of re-establishing the Advisory Committee.

Agency officials stated that the Committee vacancies and failure to meet were due to oversight.

**Updated Response:** Implemented. The Agency considers this finding resolved as the Advisory Committee is now operational.

### 9. Accomplish the following tasks related to security of personal information:

- **Perform a comprehensive risk assessment to identify all forms of confidential or personal information and ensure adequate security controls, including adequate physical and logical access restrictions, have been established to safeguard data and resources; and,**
- **Ensure confidential information is adequately secured with methods such as encryption or redaction.**
- **Ensure bins used for storing confidential information until it can be appropriately disposed are adequately secured.**
- **Develop policies and procedures to ensure timely compliance with the requirements outlined in the Personal Information Protection Act in the event of a breach of confidential information.**

**Finding:** The Agency had weaknesses relating to security and control of confidential information. During a review, auditors noted the Agency had not:

- Performed a comprehensive risk assessment for identifying all confidential systems and data to ensure they were adequately secured as required by the Personal Information Protection Act.

### Accepted or Implemented - concluded

- Ensured confidential data was properly secured. Social security numbers captured in a web application were not encrypted or redacted. In addition, a contractor doing business with the Agency reported two laptops stolen in June 2011. The two laptops contained confidential school district information and were not encrypted.

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- Ensured all lockable bins for storing confidential and sensitive information were adequately secured.
- Developed formal policies and procedures to promote timely compliance with requirements outlined in statute, in the event of a breach of personal information.

Agency officials stated they had focused efforts on implementing security measures designed to ensure that confidential information is accessible only by those with appropriate authority and need.

**Updated Response:** Accepted. The Agency agrees that processes are necessary to address the identified vulnerabilities related to the Agency's security and control of confidential information. The Agency is finalizing the release of an RFSP to have a vendor perform an overall risk assessment of the IT division as related to systems design and security, policies, practices, etc. A planned release of this RFSP will follow in October of 2013. ISBE has also purchased a total of 250 licenses of McAfee Endpoint Encryption and all new laptops are provisioned with fully encrypted hard drives. ISBE IT has also purchased encrypted flash drives that are assigned to people who receive encrypted laptops. ISBE is using secure recycle bins until documents can be appropriately disposed. The Agency has developed procedures related to the Personal Information Protection Act and will continue to comply with the Act in the event of a breach of confidential information.

### 10. Develop and approve an identity protection policy as required in the Identity Protection Act.

**Finding:** The Agency failed to implement the provisions of the Identity Protection Act, which required the Agency to draft and approve an identity-protection policy by June 1, 2011.

Agency officials stated they did not develop an identity-protection policy due to oversight.

**Updated Response:** Implemented. The Agency considers this finding resolved. ISBE has developed an Identity Protection Policy as required by statute, effective October 1, 2013.

### Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief

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procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY11 and FY12, the State Board of Education filed no affidavits for emergency purchases.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

As of July 11, 2012, the State Board of Education had 35 employees whose duties require them to be away from their official headquarters more than 50% of the time.