

**Review: 4251
Statewide Single Audit
Year Ended June 30, 2005
State Board of Education**

05-05. The auditors recommend ISBE review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISBE should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: ISBE does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the ISBE information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISBE.

In discussing this with ISBE officials, they stated submission deadlines were met, but revisions and additional documentation were necessary after the Office of the Comptroller review.

Response; The Agency agrees that the reporting for federal expenditures should be timely and accurate. The Agency improved their process for FY05 reporting and submission deadlines were met, but revisions and additional documentation were necessary after the Office of the Comptroller review. The required completion date for the Agency financial statements was November 15, 2005 and the Agency completed the statements on November 14, 2005. For fiscal year 2004, the final financial statements were not completed until December 20, 2004. The Agency would gladly participate in additional efforts with the Illinois Office of the Comptroller, the Office of the Auditor General, and other state agencies to enhance the overall reporting process.

Updated Response: Accepted/Continuing Implementation. Efforts continue to ensure the timeliness and accuracy of all financial reporting.

05-60. The auditors recommend ISBE establish procedures to ensure that adequate documentation is maintained to support the determination of eligibility for subrecipients. ISBE should also establish control designed to reasonably ensure federal funds are only awarded to eligible subrecipients.

Findings: ISBE did not maintain documentation over the eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during the year ended June 30, 2005.

During the review of the awarding of competitive grants to subrecipients, the auditors noted the eligibility calculation and supporting documentation had to be recreated from the data maintained by ISBE's Data Collection Group. Additionally, as the original eligibility determinations were not available, auditors were unable to cite evidence of management review and approval indicating those calculations were accurately compiled and performed in accordance with the criteria established by Federal regulations. During the year, ISBE passed through approximately \$36,009,000 to subrecipients of Reading First State Grants program.

In discussing these conditions with ISBE officials, they stated that these conditions were the result of a lack of resources and a loss of institutional knowledge due to retirements and transfers of staff and management in fiscal years 2003 and 2004.

Response: The Agency agrees with the finding and has implemented the necessary controls to ensure appropriate awards and the maintenance of all eligibility documentation. Reading First offered the first multiyear grants to subrecipients beginning in fiscal year 2003. Eligibility determinations were made at that time under a different administration. To comply with the federal legislation regarding eligibility, the new administration continued the grant through the end of the designated funding period which ends on August 31, 2006 and concurrently submitted an amendment to the USDE regarding eligibility criteria for the next multiyear cycle.

Once approval was granted from USDE, the Agency initiated a new multi-year cycle in fiscal year 2006. The new Reading First grant program was launched with a request for proposal that included both an eligibility list of districts and an additional list of eligible schools within eligible districts. The eligibility lists were generated with full compliance to the federal legislation. Eligibility information was then publicly announced and posted to the Agency's website so that school personnel throughout the state were aware of eligibility status. In addition, eligible districts were mailed a letter of invitation to apply for the federal Reading First grant. Finally, only those applications from eligible districts that proposed eligible schools for funding were accepted for consideration. Upon receipt of the proposals, Agency staff verified applications against the eligibility lists. Full documentation of eligibility has been compiled for the official Agency records and is available for review.

Updated Response: Implemented. Adequate documentation of eligibility is maintained for the Reading First subrecipients.

05-61. The auditors recommend ISBE establish monitoring procedures to ensure ICCB is administering the Vocational Education program in accordance with the provisions of laws, regulations, and the interagency agreement. All

significant monitoring procedures and correspondence should be clearly documented.

Findings: ISBE does not have an adequate process for monitoring interagency expenditures made by the Illinois Community College Board (ICCB) under the Vocational Education – Basic Grants to States (Vocational Education) program.

Federal expenditures under the Vocational Education program are comprised of programs operated by both ISBE and ICCB. ICCB expended approximately \$17,531,000, or 39%, of the total Vocational Education program expenditures for the year ended June 30, 2005. As the state agency responsible for administering this program, ISBE has executed an interagency agreement with ICCB. The interagency agreement outlines the following:

- ICCB is responsible and accountable for postsecondary/adult activities and requirements; maintenance of records on fund distribution and expenditures; performance reporting and management information systems; oversight; and all other requirements associated with the postsecondary initiative and requirements of the Perkins state plan.
- ISBE will provide transitional assistance including historical data and programs needed to meet this requirement.
- ICCB and ISBE will collaborate throughout the duration of the period covered by the Perkins state plan to ensure that Perkins requirements are fully met and that the secondary and postsecondary initiatives and statewide leadership activities are effectively coordinated.

ISBE's current monitoring process consists primarily of informal inquiries and the establishment of an interagency agreement. However, there is no documentation that ISBE is performing other programmatic monitoring procedures to ensure that ISBE is administering the program in accordance with the provisions of laws, regulations, and the interagency grant agreement.

In discussing these conditions with ISBE officials, they stated these conditions were the result of a lack of resources and turnover in the Career Development and Preparation Division Administrator position throughout fiscal years 2004 and 2005.

Updated Response: Implemented. ISBE conducted a review of the Illinois Community College Board's (ICCB) procedures and monitoring of subrecipients for Vocational Education Grants in June 2006 and a report was provided to ICCB with the results of that review and recommendations. ISBE has further developed and refined the monitoring instrument used in their review to include all aspects of ICCB's grant administration. ISBE is scheduled to begin fieldwork for the FY 07 review the week of May 7 with a report issued to ICCB prior to the end of the Fiscal Year.

05-62. The auditors recommend ISBE utilize either a cyclical or risk based approach for selecting subrecipients to perform on-site monitoring

procedures. If a risk based approach is selected, ISBE should establish written procedures including clearly defined risk criteria and required documentation to ensure risk assessments are properly performed. (Repeated-2000)

Findings: ISBE does not have an adequate process for selecting subrecipients for on-site reviews under the Title One Grants to Local Educational Agencies, Special Education Cluster, Vocational Education Basic Grants to States, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

ISBE selects subrecipients and related Education programs to perform on-site program and fiscal monitoring using a method which inappropriately combines elements of both cyclical and risk-based approaches. This approach results in certain programs that may not be reviewed for several years, if ever.

Using this approach, ISBE performed fiscal and programmatic monitoring procedures for subrecipients during the year ended June 30, 2005 as follows:

Program	Total number of subrecipients reviewed	Percentage of subrecipients reviewed	Total subrecipient expenditures	Percentage of subrecipient expenditures reviewed
Title One Grants to Local Educational Agencies	211	27%	\$527,838,000	59%
Special Education Cluster	19	9%	\$ 459,493,000	34%
Vocational Education Basic Grants to States	13	18%	\$ 26,472,000	45%
Twenty-First Century Community Learning Centers	13	18%	\$ 38,673,000	21%
Reading First State Grants	13	16%	\$ 36,009,000	59%
Improving Teacher Quality State Grants	172	20%	\$ 118,301,000	22%

In discussing these conditions with ISBE officials, they state that the Agency believes adequate on-site monitoring of subrecipients is best achieved through a combination of cyclical and risk-based approaches, as is evidenced by the percentage of subrecipients and total expenditures monitored for fiscal and programmatic compliance issues.

Response: The Agency agrees with the previous FY04 and the above FY05 finding regarding the documentation of risk assessment data and processes. As the FY04 audit was issued very close to the end of the last year (FY05) of the three year monitoring plan cycle, the Agency directed its resources toward fully documenting risk assessments and processes for the new monitoring plans set to begin in FY06. However, the Agency maintains that its selected methodology of a combined risk-based and cyclical approach provides an effective and efficient system and is in keeping with current direction coming out of the industry. One resource entitled, *Risk Management: Changing the Internal Auditor's Paradigm* by David McNamme and George M. Selim, states, "A variation of the risk-based approach recognizes that problems can occur in even low risk areas if they are left to themselves for long periods of time. This [cyclical/risk-based] method combines the best features of the risk-based approach with a sampling from all parts of the auditable universe to ensure balanced coverage." Further, the US Department of Education issued the following recommendation dated August 4, 2005 in ACN report number A06F0002 to the Louisiana Department of Education concerning their monitoring efforts:

"Continue to develop and use the risk-based audit plan to assess and monitor all LEAs to ensure that they have systems in place to properly account for, and adequately document and support, the claims submitted for reimbursement from Title I funds."

Additional recent resources such as Thompson's Title I Monitor - August 2004 issued this guidance in the article entitled, *Grantees Are Advised To Develop Methods For Assessing Subgrantee Risk To Improve Monitoring*:

"Subgrantees determined to be high-risk should receive an intensive reviews and undergo greater on-site interaction. And low-risk subrecipients should have some desk review and little on-site interaction."

This clearly suggests that even low risk subrecipients would be required to have on-site reviews. A combination risk/cyclical approach would ensure that both were appropriately addressed. The U.S. Comptroller General has recently developed a guide entitled, "Guide to Opportunities for Improving Grant Accountability" – October 2005, that provides a best practice approach to addressing monitoring issues. It says, "Given the large number of grants awarded, it is important that agencies identify, prioritize, and manage potential at-risk recipients." [On using a self-evaluation instrument,] "the grantee can use the self evaluation to identify weaknesses in its operations, and can request technical assistance from the Department in addressing the weaknesses." The utilization of our monitoring instrument will help to effectively address this issue.

In an Elementary and Secondary Education Act (ESEA) Title II conference presentation by Dr. Elizabeth Witt, Team Leader of Teacher Quality Programs at USDE, on March 22, 2006, she reviewed findings occurring during the USDE's visits to State Education Agencies, where the USDE identified findings in the IG audits showing the agency did not monitor on a regular or cyclical basis. They further issued findings to those agencies where the only factor was Risk. Clearly, the explicitly expressed intent was to emphasize the

need for a combined, balanced approach using both risk-based and a cycle schedule. What is recommended? Regular, systemic review of all grant activities that include using monitoring instruments and other measures that can help to reveal risk factors to determine compliance with program requirements and progress toward meeting application objectives.

The Agency has submitted its overall monitoring approach and plan to the USDE for approval and will continue to work with USDE to implement any suggested changes.

Auditors' Comment: As discussed in the finding above, we do not believe it is possible to effectively integrate a cyclical and risk based approach for selecting subrecipients for on-site reviews. We also believe the references above to a publication intended for internal audits and a presentation at a conference is not specific to the finding above and does not contemplate ISBE's methodology of first selecting subrecipients for review overall based on a cyclical approach and then selecting individual programs based on a risk based approach. We believe that if this approach is used, there is a likelihood the same programs will be selected under each review or ISBE will not be able to effectively differentiate risk between programs when there are pervasive risk factors present.

Updated Response: Partially Accepted/ Partially Implemented. The risk assessment process used in determining the annual monitoring plan in conjunction with the cyclical/risk-based approach is documented. ISBE does not agree with the auditors that our selection approach "inappropriately combines elements of both cyclical and risk-based approaches."

In addition, various Offices of the U.S. Department of Education have not sustained this finding in their Program Determination Letters. The finding is not sustained on the basis that Federal regulations do not require a specific method for selection of subrecipients for monitoring.

05-63. The auditors recommend ISBE establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance program. The auditors also recommend ISBE implement a procedure on their subrecipient document control form to verify that the required certifications have been received and signed.

Findings: ISBE did not obtain required certifications that subrecipients were not suspended or debarred from participation in federal assistance programs.

During a review of 40 subrecipients of the Reading First State Grants program, the auditors noted ISBE did not receive certification from four subrecipients that they were not suspended or debarred from participation in federal assistance programs nor did they perform a verification check with the "Excluded Parties List System" (EPLS) maintained by

the General Services Administration. During the year ended June 30, 2005, ISBE passed through approximately \$36,009,000 to subrecipients of Reading First State Grants program.

In discussing these conditions with ISBE officials, they stated these conditions were the result of the agency not having a procedure on their subrecipient document control form to verify that the "certification and assurances for application and award" statements are signed by the superintendent for each local education authority (i.e. subrecipient).

Response: The Agency agrees with the finding, but would like to note that Reading First applicants also already have this certification of assurance (as well as other required assurances) on file in the Agency's eGrant system for Title I grantees. The Agency has implemented the following controls to ensure that the separate Reading First assurances are in place. The Reading First subgrant checklist to implement document control measures has been revised. The checklist includes, among others, the verification of receipt of the Agency's Debarment and Suspension form. Each subgrantee's annual application for funding will be reviewed by support staff and then again by professional staff using the developed checklist to ascertain that all documents have been received and appropriately signed by authorized officials. The Division Administrator will review the checklist prior to sign off on each subgrantee's budget.

Updated Response: Implemented. The receipt of an appropriately signed subrecipient Debarment and Suspension form is verified by support and professional staff prior to the subrecipient's budget approval.

05-64. The auditors recommend ISBE revise its budget and expenditure reports for LEAs in improvement status to include a line item for professional development costs.

Findings: ISBE did not monitor earmarking requirements of subrecipient schools in "improvement status" for the Title One Grants to Local Education Agencies (Title One) program.

ISBE is required to review each year the progress of local education agencies (LEAs) that receive Title One funds to determine whether the LEAs have made adequate yearly progress. LEAs that fail to make adequate yearly progress for two consecutive years are placed in "improvement status" and are required to implement corrective action including, among other things, earmarking at least 10% of the Title One funds on professional development needs of the instructional staff. During testwork of 40 subrecipients, the auditors noted the budget and expenditure reports that the LEAs are required to submit to ISBE did not include a line item for professional development costs. Accordingly, ISBE was not able to monitor whether LEAs placed in improvement status were providing the necessary professional development activities for teachers. During the year ended June 30, 2005, ISBE passed through approximately \$84,000,000 to 240 subrecipients of the Title One program that were in improvement status.

In discussing these conditions with ISBE officials, they state the requirement for LEAs in improvement status to spend at least 10% on professional development activities was new in fiscal year 2005. At the time ISBE developed the budget and expenditure report formats, they were not aware of this new requirement.

Updated Response: Implemented. Computer system controls are in place to ensure all schools and districts in improvement status set aside 10% for professional development activities.

05-65. The auditors recommend ISBE revise its carryover waiver form to require its subrecipients to provide a description of the reasons why the 15% carryover limit was exceeded and the specific actions that will be taken to bring the excess carryover below the 15% maximum. Additionally, the description should include the specific activities to be carried out and the amount of funds to be expended for each proposed activity.

Findings: ISBE did not obtain adequate documentation from subrecipients requesting waivers for the carryover of grant awards.

Under the Title One program, subrecipients generally may carryover 15% of the current year grant award to the following year. Additionally, subrecipients may request a waiver from ISBE to carry over an additional amount if the request is considered to be “reasonable and necessary”. During testwork of 30 subrecipient waiver requests, the auditors noted the standard waiver form did not include adequate information to allow ISBE to conclude the request was reasonable and necessary including the reason why the 15% carryover limit was exceeded and specific plans to reduce the carryover below the statutory maximum. During the year ended June 30, 2005, ISBE approved 19 subrecipient waivers requesting the carryover of \$166,668 to the subsequent year.

In discussing these conditions with ISBE officials, they stated that the finding was received previously in an USDE report of June 14, 2005 and the USDE determined that the Agency’s corrective action of implemented on July 5, 2004 satisfactorily resolved the finding.

Updated Response: Implemented. Subrecipients are required to submit sufficient documentation to support waiver requests. The standard waiver form was revised to include adequate information to evaluate that a waiver request is reasonable and necessary.

05-66. The auditors recommend ISBE review its current process for maintaining documentation for federal awarding purposes for the Twenty-First Century Community Learning Centers program and implement procedures to ensure that documents are filed appropriately.

Findings: ISBE did not maintain adequate documentation for a competitive grant award made to a subrecipient of the Twenty-First Century Community Learning Centers program during the year ended June 30, 2005.

During testwork of 40 subrecipients of the Twenty-First Century Community Learning Centers program, the auditors noted one instance in which ISBE could not locate the “continuing” grant application for a subrecipient. During the review of the supporting documentation including ISBE’s eligibility review file, the subrecipient appeared to be eligible. During the year ended June 30, 2005, ISBE passed through approximately \$38,673,000 to subrecipients of the Twenty-First Century Community Learning Centers program.

In discussing these conditions with ISBE officials, they state the application was received and reviewed during the awarding process, but inadvertently misfiled.

Updated Response: Implemented. The misplaced application referred to in this finding was located and properly filed. A logging system has been implemented to ensure that documents are filed appropriately.

05-67. The auditors recommend ISBE implement procedures to ensure the Accountability Report is reviewed by individuals independent of the preparation process who are knowledgeable of the reporting requirements. The reviewers should sign and date the report and related supporting documentation to evidence performance of the activity and to affix responsibility for its effective completion. ISBE should also consider requiring the financial information in the Accountability Report to be reviewed by the Division Administrator for Financial Funding and Disbursements.

Findings: ISBE does not document the review and approval of the Accountability Report.

The Accountability Report contains data to be used in determining whether ISBE met its adjusted performance levels for the following core indicators: 1) attainment of academic and vocational skills; 2) attainment of diploma or credential; 3) placement and retention; and 4) participation in, preparation for, and completion of program leading to non-traditional occupation. The USDE uses the report to ensure accountability for performance and fiscal management in contributing to states and school districts' achieving their education goals for all vocational students.

During the review of the process for preparing the Accountability Report for the federal fiscal year ended September 30, 2004, the auditors noted no evidence of a supervisory review. ISBE officials stated the report was reviewed by the Division Administrator for Career Development and Preparation, but this review was not documented.

Response: The Agency agrees with the finding and has implemented a documented and detailed review process for the Financial Status Report which has been reviewed and approved by the Office of Vocational and Adult Education of the USDE. For the current year's report submission, both the interim and final Financial Status Reports have been reviewed by the Division Administrator of the Career Development and Preparation Division and Internal Audit. The review process and documentation was approved by the supervisor of Funding and Disbursement division and Internal Audit, and the Career Development and Preparation Division Administrator was trained on the report and review process. The reports and all supporting documentation have been reviewed and signed and the Agency will maintain these records. The Agency is considering automating the Financial Status Reports for future years and will document the report design when implemented.

Updated Response: Implemented. The review of all information included in the Accountability report is documented.

05-68. The auditors recommend ISBE establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports. (Repeated-2002)

Findings: ISBE did not review OMB Circular A-133 audit reports received from its subrecipients on a timely basis.

Subrecipients who receive more than \$500,000 in federal awards from ISBE are required to submit an OMB Circular A-133 audit report. The funding and disbursements division initially reviews these reports. A "single audit desk review sheet" checklist is used to assist in evaluating whether the OMB Circular A-133 audit was properly performed and in evaluating the impact of findings. If findings are reported, a review form is completed and forwarded with the OMB Circular A-133 audit report to the respective ISBE program fiscal consultant for follow-up and resolution. The findings are also logged and tracked in a database.

The auditors selected a total sample of 156 subrecipient monitoring files to review and noted that ISBE had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by ISBE for 69 subrecipients. A-133 reports from 21 subrecipients were reviewed more than six months after receipt. Subrecipients expended a total of \$1.67 billion under federal programs in FY05.

In discussing the desk review process with ISBE officials, they stated that management has reviewed potential risks and determined that controls and processes are adequate to ensure compliance with the federal requirements.

Response: The Agency disagrees with the finding. The highest risk to federal funds being inappropriately expended is if subrecipient findings are not resolved. Accordingly, the OMB A-133 Circular requires management decisions regarding findings to be issued

within 180 days. ISBE has met this 180 day timeline in both fiscal year 2004 and fiscal year 2005. The Agency performs an initial review of audit reports to identify all report findings and 'fast tracks' them for resolution to address this highest risk.

It should be noted that the 180 day timeline for resolving findings is the only specific timeline required by the Circular. The only other time requirement regarding the review of subrecipient audit reports is that they be "timely". Besides evaluating and resolving findings, the other purpose of the review is to ensure that the subrecipients' A-133 audit was properly performed. The Agency has slightly over 700 subrecipients that must submit an A-133 audit to the Agency for review and each subrecipient contracts with its own accounting or audit firm to perform the audit for them. The quality of the audits varies widely and it is incumbent upon the Agency to perform a detailed review. In several instances, the Agency may require these audit firms to perform additional work in order to meet the audit requirements of Circular A-133. The amount of additional work and the audit firms' schedules can impact when the corrected audits can be completed, submitted, and then reviewed again by the Agency.

The Agency must be primarily concerned that the audit reports meet the necessary federal standards and cannot agree to adhere to an arbitrary deadline not required by the Circular, as this would in some instances result in sacrificing or lowering the quality of the reviews and the reports themselves. The Agency will monitor its processes to ensure that finding resolution, reviews, and audit reports continue to meet statutory timelines and quality requirements.

The Agency will also consult with its cognizant agency, the USDE in its federal Single Audit finding resolution process to ensure that the Agency's processes are adequate. The Agency recently received notification from the USDA in their Single Audit finding resolution process that they determined the Agency's previous findings on this issue resolved.

Auditors' Comment: We do not agree with ISBE's assessment that the highest risk of federal funds being inappropriately expended is if subrecipient findings are not resolved. Timely monitoring of subrecipients, including performance of desk reviews, is essential to ensure subrecipient compliance with the applicable provisions of laws, regulations, contracts, and grant agreements. Also, desk reviews of subrecipient OMB Circular A-133 audit reports include procedures in addition to following up on findings including reconciliation of federal expenditures to ISBE records and review of risk assessments to ensure the audit was properly performed.

Updated Response: Accepted, ongoing process. The procedures for performing desk reviews of A-133 Audit Reports have been reviewed and revised to help ensure that desk reviews are performed within the parameters established by the auditors as timely.