



**UNITED STATES DEPARTMENT OF EDUCATION
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June 9, 2005

Dr. Randy J. Dunn
Interim State Superintendent
Illinois State Board of Education
100 N. 1st Street
Springfield, IL 62777

Dear Dr. Dunn:

This final audit report, Control Number ED-OIG/A07E0029, presents the results of our audit of the Illinois State Board of Education's (ISBE's) administration of provisions under Title I of the Elementary and Secondary Education Act of 1965 (ESEA) relating to consolidating funds in schoolwide programs. The objectives of our audit were to determine (i) if ISBE has encouraged schools to consolidate funds from federal, state, and local sources in their schoolwide programs; (ii) if ISBE has modified or eliminated state fiscal and accounting barriers so that schools can easily consolidate funds from federal, state, and local sources in their schoolwide programs; and (iii) whether schools are consolidating funds and their reasons for doing or not doing so.

We found that (i) ISBE has not encouraged schoolwide programs to consolidate funds from federal, state, and local sources; (ii) there were no state fiscal or accounting barriers to consolidating funds in schoolwide programs; and (iii) all schools we reviewed were not consolidating funds for a variety of reasons.

We recommend that the Assistant Secretary for Elementary and Secondary Education require ISBE to encourage local educational agencies (LEAs) and schools to consolidate funds by providing them information that explains the potential benefits of consolidating funds, and guidance on how to consolidate funds. We also recommend that ISBE be required to amend its fiscal and administrative manual to encourage consolidating funds in schoolwide programs.

AUDIT RESULTS

ISBE has not provided information to LEAs or schools on how to consolidate federal, state, and local funds in their schoolwide programs or otherwise encouraged them to do so. ISBE officials stated that they held a statewide conference at which they informed LEAs of their options regarding schoolwide programs. The officials provided us with a copy of the presentation related to schoolwide programs that they made at the conference, but the document showed only the requirements to become a schoolwide program, including the year of planning and the development of a schoolwide plan. The presentation did not show the potential benefits of consolidating funds or refer to it in any other way.

Also, the annual application that LEAs submitted to ISBE for federal education funding did not facilitate consolidating funds. The budgets for the various federal programs were kept separate, and LEAs were to report expenditures for each fund separately as well. The only mention of consolidating funds was in the instructions for the application, and this was merely a statement that consolidating funds can more effectively lift the achievement of those who are farthest behind. The application materials did not contain any information on how to consolidate federal, state, and local funds.

According to 34 C.F.R. 200.29(e), each state must (i) encourage schools to consolidate funds from federal, state, and local sources in their schoolwide programs; and (ii) modify or eliminate state fiscal and accounting barriers so that schools can easily consolidate funds from federal, state, and local sources in their schoolwide programs (regulations effective January 8, 2003).

Our visits to LEAs confirmed that ISBE was not encouraging local officials to consolidate funds in their schoolwide programs. Officials at four of the five LEAs informed us that they had not received from ISBE any information about consolidating funds or, at least, that they could not remember receiving any such information. Officials at the remaining LEA stated that ISBE had encouraged consolidating funds. However, they could not remember a specific time when ISBE officials had done so and they were unable to show us any information on consolidating funds that ISBE had provided to them.

ISBE's failure to encourage consolidating funds is further demonstrated in the manual it developed for use by LEAs. This manual, "State and Federal Grant Administration Policy and Fiscal Requirements and Procedures," does not give any information on how to consolidate federal, state, and local funds in schoolwide programs, nor does it make any reference to the consolidating funds provisions.

ISBE officials stated that their agency had been downsized in the past few years and they were trying to keep up. They said that they were focusing more on disseminating information about the option of transferring funds between programs than they were on the option of consolidating funds in schoolwide programs. ISBE officials also pointed out that Illinois is a local control state, so they take a hands-off approach with respect to LEAs.

ISBE's failure to encourage the consolidation of funds may result in LEAs and schools not understanding the potential benefits of doing so. As a result, LEAs and schools may not be taking advantage of an option that could help them improve the academic achievements of all students, particularly the lowest-achieving students. If ISBE were to encourage the consolidation of funds in schoolwide programs, the likely outcome may be that LEAs and schools would consider this option for flexibility in implementing and managing their schoolwide programs.

None of the LEAs and schools covered by our audit was consolidating funds. In addition to the 5 LEAs and 5 schools we visited, we conducted telephone interviews with officials from 15 LEAs¹ and 10 schools. We asked these officials for their reasons for not consolidating funds, since knowledge of these reasons might help ISBE determine how best to encourage LEAs to consolidate funds.

¹ Out of Illinois' 882 LEAs, 145 ran schoolwide programs in school year 2004-05.

The reasons LEA officials gave for not consolidating funds are as follows:²

- Six LEAs stated that they were not aware of the option of consolidating funds in schoolwide programs.
- Five LEAs stated that they had always kept funds separate and just continued to do so.
- Four LEAs stated that they did not know how to consolidate funds.
- Four LEAs believed that it was necessary to keep funds separate to be consistent with audit or state requirements, e.g., LEAs are required to submit expenditure reports to ISBE that separate out expenditures by federal program.
- Three LEAs stated that, given what they knew about consolidating funds, they did not see how it would benefit them.
- Three LEAs stated that it appeared to be easier to not consolidate funds.

The reasons school officials gave for not consolidating funds are as follows:³

- Five schools stated that the LEA made the decision to keep funds separated.
- Four schools stated that the LEA did not allow commingling of funds.
- One school stated that they had always kept funds separate and just continued to do so.
- One school stated that ISBE and the LEA did not allow consolidating funds.

RECOMMENDATIONS:

We recommend that the Assistant Secretary for Elementary and Secondary Education require ISBE to

1. Provide specific encouragement to LEAs and schools to consolidate federal, state, and local funds in schoolwide programs, including providing
 - a. Information about the potential advantages of consolidating funds through such means as conferences, written and telephone communications, and site visits; and
 - b. Guidance on how to consolidate funds; and
2. Amend the ISBE “State and Federal Grant Administration Policy and Fiscal Requirements and Procedures” to encourage consolidating funds in schoolwide programs.

² Because some LEAs gave more than one reason for not consolidating funds in their schoolwide programs, the total number of reasons listed does not equal the total number of LEAs we reviewed.

³ Four schools we reviewed are not represented on this list because their LEAs handled their financial accounting and would have been the ones to make decisions about whether to consolidate funds.

AUDITEE COMMENT AND OIG RESPONSE

In its response to our draft audit report (full text attached), ISBE agreed that, at the time of our review, it had not encouraged consolidating funds in schoolwide programs. However, ISBE stated that it had taken some action since our review to address this issue. It stated that it had amended the instructions for LEAs in its e-grant application system and in its grant workshop presentations to include language that encouraged coordinating funds to support schoolwide programs, and that it is also in the process of reviewing its policy and procedures manual for potential changes.

ISBE's response did not cause us to change our findings or recommendations. While ISBE stated that it has now encouraged coordinating funds in schoolwide programs, it did not indicate that it has taken steps, or that it intends to take steps, to encourage consolidating funds in schoolwide programs. As stated in the second paragraph of the BACKGROUND section of this report, a schoolwide program for which funds are consolidated does not maintain separate accounting records that identify the funding source for each expenditure. The coordination of funds described in ISBE's response does not refer to the type of accounting system that was the subject of our audit.

BACKGROUND

The Elementary and Secondary Education Act of 1965, as amended, authorizes schoolwide programs to use funds under Title I, Part A, along with other federal, state and local funds, to upgrade the entire educational program in a school to improve the academic achievement of all students, particularly the lowest-achieving students. This is in contrast to targeted assistance programs, in which program funds may be used only for supplementary educational services for eligible children identified as being most at risk of not meeting state standards.

A school operating a schoolwide program is not required to identify particular students as eligible to participate in the program, or demonstrate that the services provided with Title I, Part A funds are supplemental to services that would otherwise be provided. The school is also not required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds, but must maintain records that demonstrate that the schoolwide program addresses the intent and purposes of each of the federal programs whose funds were consolidated to support the schoolwide program. In a notice the Department published in the Federal Register on July 2, 2004, it provided information on consolidating funds that included guidance on ways a schoolwide program can meet the intent and purposes of specific federal programs (Federal Register/Vol. 69, No. 127, Page 40360/Notices). This document can be viewed via the following website: http://frwebgate.access.gpo.gov/cgi-bin/getpage.cgi?position=all&page=40360&dbname=2004_register.

Congress, under the No Child Left Behind Act, effective January 8, 2002, stated that state educational agencies must encourage schools to consolidate funds from federal, state, and local sources in their schoolwide programs, and must modify or eliminate state fiscal and accounting barriers so that these funds can easily be consolidated.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine (i) if ISBE has encouraged schools to consolidate funds from federal, state, and local sources in their schoolwide programs; (ii) if ISBE has modified or eliminated state fiscal and accounting barriers so that schools can easily consolidate funds from federal, state, and local sources in their schoolwide programs; and (iii) whether schools are consolidating funds and their reasons for doing or not doing so.

To accomplish our objectives, we

- Reviewed applicable federal and state law and regulations;
- Reviewed files relating to schoolwide projects at ISBE;
- Interviewed ISBE, LEA, and school personnel;
- Reviewed the most recent state single audit;
- Obtained and analyzed documents and records related to schoolwide programs at ISBE and the LEAs, including organization charts and accounting policies and procedures;
- Visited five LEAs and five schools; and
- Interviewed officials from 15 LEAs and 10 schools by telephone.

We judgmentally selected 5 of the 145 LEAs that had schoolwide programs in order to visit LEAs receiving varying amounts of Title I funds for FY 2004-05, those that consolidated funds and those that did not, and those that were geographically located so as to minimize our travel expenses. We selected the 15 LEAs to interview by telephone to include those receiving varying amounts of Title I funds for FY 2004-05. In addition to the 5 schools we visited, we randomly selected 10 schools in the Chicago Public School district to interview by telephone. We decided on the extra coverage of schools in Chicago since in that LEA the schools had responsibility for their own financial accounting and could make their own decisions about whether to consolidate funds.

We performed our audit work at ISBE's administrative offices, the administrative offices of five LEAs and five schools, and our Kansas City office from October 2004 through March 2005. We discussed the results of our audit with ISBE on March 11, 2005. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

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 will be made by the appropriate Department officials.

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

Raymond Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Washington, DC 20202

It is the policy of the Department 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.

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/

Richard J. Dowd
Regional Inspector General
for Audit

Attachment

[Illinois State Board of Education Letterhead]

May 4, 2005

Ms. Janice D. Keeney
Assistant Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Education
8930 Ward Parkway, Suite 2401
Kansas City, Mo 64114-3302

Dear Assistant Regional Inspector General Keeney:

The Illinois State Board of Education (ISBE) received the draft audit report on the state's administration of provisions under Title I regarding consolidating funds in schoolwide programs. The draft findings are similar to those on the Finding Point Sheet received earlier in the review cycle.

Basically, the audit found that ISBE is not providing specific information to districts or schools on how to consolidate federal, state, and local funds in their Title I, Part A schoolwide programs or encouraged them to do so. The information appears to be accurate. While there have been discussions of this issue at earlier grant workshops, there has not been a formal plan or written documentation of such dialogue.

The recommendations offered in the draft audit were to:

- Provide specific encouragement to districts and schools to consolidate federal, state and local funds in schoolwide programming:
 - Information about the potential advantages of consolidating funds through such means as conferences, written and telephone communications, and site visits; and
 - Guidance on how to consolidate funds.
- Amend ISBE's "*State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*" to encourage consolidating funds in schoolwide programs.

Since the initial visit and Finding Point Sheet, Illinois has taken some action. Staff has:

- Amended the instructions for the e-grant system for the Consolidated Application for NCLB Funds. The following language is from the FY05 instructions for the NCLB plan page in our e-grant application system. "*Planning should begin with a comprehensive needs assessment which should include a thorough review of school-level improvement plans and an assessment of students' progress in meeting academic*

Ms. Janice D. Keeney
May 5, 2005
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*achievement standards, a review of district and school progress in closing the achievement gap, and the determination of district progress in ensuring that all teachers are highly qualified. Once district and school needs have been identified and prioritized, grant resources should be targeted, as appropriate, to meet needs and priorities. As a part of the planning process, LEAs are encouraged to coordinate federal, state and local programs, funds, and services with the goal of improving instruction and student achievement and supporting educational reform. Plans should be updated annually and be available for review upon request. Grant expenditures should relate to needs identified in the district's NCLB and/or school improvement plan(s). **Please note** that if all required components are addressed, a school improvement plan may serve as the schoolwide or targeted assistance plan for the Title I program.*” In FY06 a similar statement is being added to the Title I, Step 4 Targeting instructions.

- Recent grant workshop instructions were amended to include specific mention of encouraging grant writers to review all eligible programs to find additional funds to support the Title I Schoolwide Programs. These workshops were conducted during the last two weeks of April 2005.
- We are reviewing the “*State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*” for potential changes. It has not been amended in the last year.

Thank you for the opportunity to comment on the draft audit findings.

Sincerely,

/s/

Randy J. Dunn
State Superintendent of Education (Interim)