



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MAR 28 2001

THE INSPECTOR GENERAL

Control Number: ED-OIG/A02-A0001

Harold O. Levy, Chancellor
New York City Board of Education
110 Livingston Street, Room 1010
Brooklyn, NY 11201

Dear Mr. Levy:

This *Final Audit Report* presents the results of our audit of the New York City Board of Education's oversight of Title I, Part A, Improving Basic Programs Operated by Local Educational Agencies (Title I) services to private school children, as authorized by the Elementary and Secondary Education Act (ESEA). The report incorporates the comments you provided in response to the draft audit report.¹

Statements that management practices need improvement, 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 appropriate Department of Education officials.

BACKGROUND

The Title I program provides financial assistance through state education agencies to local education agencies and schools to help meet the educational needs of children: 1) who are failing or most at risk of failing to meet challenging State academic standards, and 2) who reside in areas with high concentrations of children from low-income families. Local education agencies are required to provide educational services or other benefits, on an equitable basis, to eligible children who are enrolled in private elementary and secondary schools.

Federal funds authorized by Title I of the ESEA are made available to the New York City Board of Education (NYCBOE) through the State of New York Education Department. The NYCBOE is the local education agency responsible for 32 Community School Districts (CSDs) in the five boroughs² of New York City. The NYCBOE provides Title I services to eligible private school children, and also gives the CSDs the option of providing Title I services to private school children through a district-administered program, called the "decentral" program. The NYCBOE allocates 25 percent of the

¹ The NYCBOE's comments on the draft report, in its entirety, are included as an Attachment to this report.

² The boroughs are Manhattan, Brooklyn, Bronx, Queens, and Staten Island.

CSD's Title I allocation for services to eligible private school children to the CSDs. The CSD is given three options regarding the 25 percent allocation:

- 1) Transfer the entire allocation to the NYCBOE's Bureau of Nonpublic Schools and Reimbursable Services (BNSRS);
- 2) Retain a portion of the allocation in order to implement programs for private school children in their district and transfer the balance of the allocation to the BNSRS to use in providing the Title I services; or
- 3) Retain the entire Title I allocation in order to implement a Title I program for private school children in their district.³

The remaining 75 percent of the allocation is also used to provide Title I services to private school children and is administered by the BNSRS. The services provided are called the "central" program. Accordingly, Title I services can be provided to private school children by both the BNSRS and the CSD, if the CSD opts to retain all or a portion of its Title I allocation. Only two of the 32 CSDs participated in the "decentral" program during fiscal year 2000.

In NYCBOE, Title I eligibility for private school students is determined based on the number of students who live in a target attendance area,⁴ are eligible to participate in the free lunch program,⁵ and whose standardized test scores are at or below the minimum national percentile. Title I funds are allocated to the CSDs to provide services to eligible private school children based on the number of poor private school students who reside in participating Title I public school attendance areas and the pupil per capita⁶ for the attendance area where the student resides.

During the period July 1, 1997, through June 30, 1999, the NYCBOE received \$63.3 million for all Title I services to private school children. During this period approximately \$1.4 million was retained by the CSDs to administer "decentral" Title I programs.

We performed the audit of the NYCBOE's oversight of Title I services to private school children because of a past investigation (which resulted in guilty pleas by officials of a CSD and a private school) in this area.⁷ Additionally, we performed the audit to address the U.S. Department of Education, Office of Elementary and Secondary Education's

³ For example, if the CSD had 1000 eligible students and the pupil per capita for the borough the CSD resides in is \$586.85, then the CSD's Title I allocation would be \$586,850. The CSD would have the option to retain \$146,713 (25 percent) to provide their own services to private school children.

⁴ A target attendance area is an area of the city where a participating Title I public school is located.

⁵ Part of the National School Lunch Program administered by the U.S. Department of Agriculture.

⁶ The pupil per capita amount varies by borough because poverty levels vary by borough.

⁷ The CSD involved no longer participates in the "decentral" program.

concerns relative to the oversight of Title I services provided to private school students under the jurisdiction of the NYCBOE.

AUDIT RESULTS

Generally, during the period July 1, 1997, through June 30, 1999, the NYCBOE's oversight of Title I services provided to private school children was adequate, except that the NYCBOE did not review Title I expenditures for services provided to private school children by the CSDs. Additionally, if the NYCBOE continues to allow CSDs to administer their own Title I program for private school children, expenditures for these services should be reviewed to assure that they are appropriate Title I expenditures. When we reviewed these expenditures, we found that \$5,162 of the Title I funds were inappropriately expended.

Finding No. 1 – Monitoring of the Private School Title I Allocation to Community School Districts Should Include A Review of the “Decentral” Program Expenditures

The NYCBOE allocates 25 percent of a CSD's Title I allocation for services to private school children to the CSD to administer a district Title I program. The CSD could use all or a part of the allocation in the administration of a “decentral” program. The CSD could choose to provide whatever Title I services they deem appropriate.⁸ The NYCBOE's Office of Monitoring and School Improvement (OMSI) and the New York State Education Department monitor the CSD Title I program services, but neither entity monitors program expenditures.⁹

There has been mismanagement of the “decentral” Title I allocation for private school students in the past. For example, the New York State Education Department noted in previous reviews that CSDs used their allocation to pay for teachers and paraprofessionals who did not provide Title I services. In other instances, the “decentral” Title I allocation was used to support activities not related to the “decentral” Title I program. Additionally, there was an investigation and prosecution of an administrator at one CSD where the Title I “decentral” allocation had been misused.

If the NYCBOE continues to allocate a portion of the Title I allocation to the CSDs to administer a “decentral” Title I program for private school students, then they must monitor the allocation by examining a sample of program expenditures. Federal regulation 34 CFR §80.40 states that, “Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements....

⁸ The NYCBOE does approve the CSD's Title I program plan before the allocation is made.

⁹ The monitoring review only includes a review of the types of services provided and the assignment of personnel, but not the expenditures associated with providing the services.

Grantee monitoring must cover each program, function or activity.” Therefore, it is the responsibility of the NYCBOE to provide oversight for all Title I funds.

By not including an examination of expenditures in the monitoring process, misuse of Title I funds may occur. Additionally, the annual independent audit, as it is currently being performed under Office of Management and Budget Circular A-133, does not specifically include a review of Title I expenditures for services to private school students. The Title I expenditures for services to private school students are not reviewed separately from Title I public school expenditures. The universe used to select the sample of expenditures to review includes all Title I program expenditures. Because the population of expenditures for services to private school students is small, the expenditures for services to private school students may not be included in the review. As a result, Title I expenditures for services to private school students might not be reviewed at any level. We concluded that a review of expenditures was needed in the monitoring process, because once the CSD’s budget was reviewed and approved there were no measures taken by the NYCBOE to ensure that only expenditures for allowable services were made. Once an expenditure was entered into the accounting system, it was paid without any review. The NYCBOE was not in compliance with Title 34 CFR §80.20(b)(3), as effective control and accountability was not maintained. Due to the lack of management control in this area, an NYCBOE review of a sample of program expenditures would be prudent to assure that Title I program funds expended for services to private school children are reasonable, allocable, and allowable.

Recommendation:

We recommend that the Assistant Secretary for Elementary and Secondary Education:

- 1.1. Require the New York State Education Department in partnership with the NYCBOE to include a review of a sample of program expenditures for services to private school students as a part of the monitoring process for “decentral” Title I programs.

NYCBOE Comments:

The NYCBOE disagrees with the finding that OMSI does not monitor expenditures. The NYCBOE stated in its comments that part of OMSI’s review does serve to confirm that selected Title I expenditures are permissible. One task performed by OMSI in selected public and non-public schools is to confirm that personnel charged to Title I perform Title I services, or that such individuals otherwise meet Title I requirements.

The NYCBOE agrees, through the Office of the Auditor General, to review a small sample of selected fiscal year 2001 non-personnel expenditures in the one current decentral non-public school program. This will be accomplished in connection with its annual audit of the district. The extent of any review of any decentral Title I expenditures for services to private school students in future years will be based on the

size of any decentral program or programs, their relation to the size of the NYCBOE's total Title I expenditures, a risk-based allocation of audit resources, and any coverage provided for decentral non-public school programs in the audit plan for the annual federal single audit.

OIG Response:

The report does note that the monitoring reviews conducted by the NYCBOE's OMSI and the New York State Department of Education include a review of personnel (See Footnote #9) as stated in the NYCBOE's comments. However, the review does not include non-personnel expenditures.

NYCBOE identified an adequate method for review of future "decentral" program expenditures. We also recommend that NYCBOE strongly consider reviewing a sample of "decentral" Title I program expenditures annually regardless of the size of the program and the relation to the NYCBOE's total Title I expenditures or ensure that the annual federal single audit includes a review of these expenditures.

Finding No. 2 – Improper "Decentral" Title I Program Expenditures

During our review of the "decentral" Title I program provided by CSD Number 6 to private school students, we noted instances in which the allocation was improperly used. A total of \$3,320 of the CSD's allocation was used to purchase materials and provide services that were unrelated to the CSD's Title I Reading program. Specifically, we found \$1,465 was used to purchase math and library workbooks for grades other than those taught in the CSD's Title I program¹⁰. There was also a purchase of \$525 for science equipment, which was not used in the Title I program. Additionally, \$1,330 of the allocation was used to provide a class trip for the first grade of the entire school. Although the majority of the children were Title I eligible, Title I funds can only be used for services provided to Title I program participants. Federal regulation 34 CFR §200.12(b) states that "an LEA shall use funds to meet the special education needs of participating private school children, but not for (1) the needs of the private school; or (2) the general needs of children in the private school."

We also found \$1,842 paid for stipend payments was improperly charged to the CSD's Title I program account. The stipend payments were paid to CSD staff for work not related to the Title I program. The stipend payments were not related to the CSD's "decentral" Title I program, and therefore should not have been charged to the CSD's Title I account. At the exit conference, the CSD Title I coordinator provided us with documentation to show that an adjustment had been made to correct the improper charge.

¹⁰ The CSD's Title I Reading program services are provided to first through fourth grades.

Recommendation:

We recommend that the Assistant Secretary for Elementary and Secondary Education require the New York State Education Department to ensure that the NYCBOE:

- 2.1. Repays the remaining \$3,320 in improper expenditures to the appropriate funding source.

NYCBOE Comments:

The NYCBOE partially agreed with our finding. The NYCBOE agreed that \$1,990 (\$1,465 + \$525) in funds were used for non-Title I purposes. The Community School District is rebooking this amount to Tax Levy funds.

The NYCBOE believes that the remaining \$1,330 used for the first grade class trip was correctly charged to the Title I program because the majority of the children were Title I eligible and there was no additional cost for any other children attending the class trip.

OIG Response:

The corrective action planned to be taken by the NYCBOE for the \$1,990 adequately addresses this part of the finding.

We disagree with the NYCBOE's comments relating to the remaining \$1,330. As stated in the finding, although the majority of the children may have been Title I eligible, Title I funds can only be used for services provided to Title I program participants. Additionally, all of the students were not participants in the "decentral" Title I program.

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The purpose of our audit was to review and evaluate the oversight procedures used by the NYCBOE to monitor Title I services provided to private school. We focused on the CSDs that retained all or a portion of the CSD's Title I allocation to administer a district Title I program for private school students. We focused on the "decentral" Title I program because of the embezzlement of the "decentral" Title I funds allocated to a CSD in the past.¹¹

To accomplish our objective, we reviewed the NYCBOE policies and procedures for determining private school student eligibility, the Title I allocation process and the process by which Title I services are provided to private school students. We reviewed budget, expenditure, and monitoring reports. We interviewed NYCBOE officials responsible for the administration of the Title I program for private school students. We

¹¹ The principal of the private school involved plead guilty to diverting approximately \$1.8 million in Title I funds over an eight year period.

gained an understanding of the accounting, payroll and payment systems, and the application process.

In addition, we visited one CSD and the seven private schools with participating children within the district's boundaries. We interviewed the district's private school Title I Coordinator, and the "decentral" program's Title I teachers and psychologists. We tested a sample of 25 of the CSD's 137 other than personnel services Title I expenditures¹² made in the period July 1, 1998, through June 30, 1999. We randomly selected 23 expenditures, and judgmentally selected two. The judgmental selection was based on expenditure type.

We also reviewed supporting documentation (check registers, timesheets, and personnel files) for the personnel expenditures¹³ for the period.

We reviewed the expenditures to determine if they are reasonable, allowable, and allocable to the "decentral" Title I program.

Our audit covered the period July 1, 1997, to June 30, 1999. We performed fieldwork at the NYCBOE and CSD Number 6, New York, New York, between November 1999 and April 2000. An exit conference was held on August 10, 2000. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

We have made a study and evaluation of the management control structure of the NYCBOE *in effect for the period July 1997 through June 1999*. Our study and evaluation was conducted in accordance with Government Auditing Standards.

For the purpose of this report, we assessed and classified the significant management control structure into the following categories:

- Generation of Funds
- Allocation of Funds
- Distribution of Funds
- Monitoring of Funds
- Program Expenditures

The management of the NYCBOE is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable.

¹² Total other than personnel expenditures are \$126,104. Sample expenditures are \$17,225.

¹³ Total personnel expenditures are \$242,835.

but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with management's authorization and recorded properly, so as to permit effective and efficient operations. Because of an inherent weakness in the NYCBOE's management control structure for the audit period, we conclude that there is more than a relatively low risk that errors or irregularities in amounts that would be material in relation to reported information may occur and not be detected within a timely period. This weakness is fully described in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

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 Education Department official, who will consider them before taking final Department action on the audit:

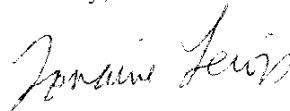
Thomas M. Corwin
U. S. Department of Education
Office of Elementary and Secondary Education
Federal Building No. 6, Room 3W314
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Office of Management and Budget Circular A-50 directs Federal agencies 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 greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Please refer to the above audit control number in all correspondence relating to this report.

Sincerely,



Lorraine Lewis

Attachment

cc: Jess Fardella, Auditor General, New York City Board of Education


BOARD OF EDUCATION OF THE CITY OF NEW YORK
HAROLD O. LEVY, Chancellor
JESS FARDELLA, Auditor General

March 16, 2001

Bernard Tadley
 Regional Inspector General For Audit
 USDOE Office of Inspector General
 The Wanamaker Building
 100 Penn Square East – Suite 502
 Philadelphia, PA 19107

RECEIVED MAR 23 2001

Re: Draft audit report on the
 NYCBOE's oversight of Title 1
 (ED-OIG/A02-A0001)

Dear Mr. Tadley:

Enclosed is the New York City Board of Education's response to the above audit.

As set forth in the response, we agree that a small portion of Title I monies was inadvertently used for non Title I students.

In addition, as also set forth in the attached response, the Board's Office of Monitoring and School Improvement typically reviews the appropriateness of selected Title I nonpublic school personnel expenditures. The Office of Auditor General will review the permissibility of a sample of Title I "decentralized" nonpublic school non-personnel expenditures in FY 2001.

If you have any questions regarding the response please contact Michael King at (718)-935-2599.

Sincerely,

Jess Fardella
 Auditor General

.JF:mk
 Enclosure

C:	Harold O. Levy	Burton Sacks	Chad Vignola
	Ron Woo	Margaret Weiss	Jorge Izquierdo
	Sr. James David	David Klasfeld	Beverly Donohue
	Anthony Shorris		

Finding 1 and Recommendation 1

The DOE states broadly that the BOE's OMSI "monitors CSD Title I program services, but ... [does not] monitor[] program expenditures." This statement is not correct. Part of OMSI's review in fact does serve to confirm that selected Title I expenditures are permissible. One task performed by OMSI in selected public and non-public schools is to confirm that personnel charged to Title I in fact perform Title I services (e.g., a teacher budgeted 50% to Title I will be asked if he or she in fact spends 50% of his or her time teaching Title I-eligible students), or that such individuals otherwise meet Title I requirements (e.g., licensure).

The DOE recommends that a review of Title I expenditures include a sample of expenditures in non-public school "decentral" programs. As DOE notes, there is only one such decentral program in the BOE now; its expenditures in FY 2000 were only \$600,000 of the BOE's total Title I expenditures of \$460 million in that year. The BOE agrees, through the Office of Auditor General, to review a small sample of selected FY 2001 non-personnel expenditures in that decentral non-public school program, in connection with its annual audit of the district.¹ The extent of any review of any decentral private school Title I expenditures in future years will be based on the size of any decentral program or programs, their relation to the size of BOE's total Title I expenditures, a risk-based allocation of audit resources, and any coverage provided for decentral non-public school programs in the audit plan for the annual federal single audit.

Finding 2

With regards to the \$3,320 in disallowances, we agree that \$1,990 (\$1,465 + \$525) in funds was used for non Title 1 purposes. However, as noted in the finding, the remaining \$1,330 was used to provide a class trip for the entire first grade. The funds were paid to Wave Hill Education for a series of educational programs from November '98 to June '99 that were designed to enhance children's communication skills. The majority of the children were Title 1 eligible, attending either the ESL or Communication Arts program. Any other children attending the classes did so at no additional cost to the program. Therefore, the BOE believes that only \$1,990 was not correctly charged to Title 1, and Community School District 6 is rebooking this amount to Tax Levy funds.

¹ Each Community School District is assigned an Internal Control Officer (ICO) who is responsible for carrying out a regular internal audit function. As part of a new audit program being implemented by the Office of Auditor General, which will be carried out by the ICOs, one objective will be to complement and integrate the existing monitoring of reimbursable programs to enhance assurance that the districts are properly budgeting and spending reimbursable funds in accordance with program guidelines.

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