



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

SEP 18 2001

TO: Robert Pasternack
Assistant Secretary
Office of Special Education and
Rehabilitative Services

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: **FINAL AUDIT REPORT**
*Audit of IDEA Part B Carryovers at the Indiana Department of
Education, Indianapolis, Indiana*
Control Number ED-OIG/A05-B0001

Attached is the subject report presenting our finding and recommendation resulting from our audit of IDEA Part B Carryovers at the Indiana Department of Education.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the finding and recommendation in this report.

If you have any questions or wish to discuss the contents of this report, please contact Richard Dowd, Regional Inspector General for Audit, Region V, at 312-886-6503.

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

Attachment



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 18 2001

MEMORANDUM

TO: William D. Hansen
Deputy Secretary of Education

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B Carryovers at the Indiana Department of Education, Indianapolis, Indiana
Control Number ED-OIG/A05-B0001

Attached is a copy of the final audit report referenced above. We are furnishing this report to you because it may contain information of interest to you.

If you have any questions, please call Richard Dowd, Regional Inspector General for Audit, at 312-886-6503.

Attachment



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 18 2001

MEMORANDUM

TO: Terry Abbott
Chief of Staff
Office of the Secretary

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: **FINAL AUDIT REPORT**
*Audit of IDEA Part B Carryovers at the Indiana Department of
Education, Indianapolis, Indiana*
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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

SEP 18 2001

TO: Eugene W. Hickok
Under Secretary

FROM: Lorraine Lewis

A handwritten signature in cursive script that reads "Lorraine Lewis".

SUBJECT: **FINAL AUDIT REPORT**
*Audit of IDEA part B Carryovers at the Indiana Department of
Education, Indianapolis, Indiana*
Control Number ED-OIG/A05-B0001

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UNITED STATES DEPARTMENT OF EDUCATION

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ED-OIG/A05-B0001

SEP 18 2001

Mr. Robert Marra, Director
Indiana Department of Education
Division of Special Education
251 E. Ohio, Room 229
Indianapolis, Indiana 46204-2798

Dear Mr. Marra:

This **Final Audit Report** presents the results of our audit work related to the carryover of Individuals with Disabilities Education Act Part B (IDEA) funds at the Indiana Department of Education, Division of Special Education (DSE) and six selected Planning Districts (Districts). The objectives of our audit were to determine (1) the extent of and reasons for carryovers at the six selected Districts, and (2) the extent to which DSE monitors carryovers.

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate Education Department (ED) officials.

We provided DSE with a draft of this report. A DSE official informed us they would not respond to the draft because DSE previously responded to a finding point sheet that outlined the finding. DSE did not dispute the substance of the finding described below.

AUDIT RESULTS

The percentage of IDEA funds that the six Districts in our sample carried over ranged from 1 to 40 percent of their 1999 grant year (July 1, 1999 - June 30, 2000) total IDEA allocation. Three of the Districts had a carryover because expenses during the grant award year were less than expected, and the other three Districts planned to have a carryover.

Under the Tydings Amendment, 20 U.S.C. § 1225(b), IDEA funds not obligated by the end of the fiscal year for which they were appropriated can be carried over to the following fiscal year. Because the program is "forward funded," and because ED's appropriation act for fiscal year 1999 makes such funds available for obligation starting on July 1, 1999, Districts have up to 27 months to obligate IDEA funds. DSE monitors carryovers to ensure Districts obligate IDEA funds within

24 months. It uses the final three months to obligate any IDEA funds that the Districts did not obligate within 24 months. However, DSE does not monitor Districts to ensure that cash draw downs are expended timely. We found that all six Districts maintained excess cash. DSE needs to develop and implement controls to ensure that it and the Districts comply with cash management requirements.

The carryover percentage for 33 of the 65 Districts increased between the 1996 and 1999 grant award years. For the 1999 grant award year, the 65 Districts had an average carryover of 14 percent. The six Districts in our sample had an average 1999 grant award carryover of 16 percent. Three of the six Districts planned to expend their entire IDEA allocation during the grant award year. However, expenses during the year were less than expected. As a result, the three Districts carried over unexpended funds. The other three Districts planned to have carryovers. Historically, these Districts use carryover and current year funds to meet expenses. Therefore, each year they do not intend to use all current year IDEA funds to meet expenses.

While reviewing IDEA cash flow, we identified excess cash at all six Districts. According to 34 C.F.R. §80.20 (b)(7), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

DSE's process for requesting and receiving IDEA funds and disbursing them to the Districts did not comply with the regulation. DSE did not have a process in place to monitor Districts' monthly expenditures or monthly cash balances. Therefore, DSE did not take into account Districts' cash needs when requesting funds from the U. S. Department of Education (Department) or disbursing them to the Districts. Under its process, DSE sent a cash request form to each District near the beginning of the grant year. The cash request form indicated that DSE would disburse one-twelfth of the award each month to the Districts. In actual practice, DSE made a lump sum payment for the first three to five months of funds, and disbursed the remaining funds in one-twelfth monthly installments. As a result, DSE disbursed all IDEA funds to the Districts within the grant award year, including unexpended funds carried over into the next year. The following table shows the extent of excess cash for the 1999 grant year at the six Districts where we performed audit work.

DISTRICT SIZE	HIGHEST EXCESS CASH AMOUNT	DATE OF HIGHEST EXCESS CASH AMOUNT	GRANT YEAR AWARD AMOUNT	EXCESS CASH AS A PERCENTAGE OF GRANT YEAR AWARD
Small	\$226,115	February 28, 2000	\$860,544	26 Percent
Small	\$345,782	November 30, 1999	\$1,048,320	33 Percent
Medium	\$161,470	October 1, 1999	\$1,614,528	10 Percent
Medium	\$800,564	September 30, 1999	\$1,884,672	42 Percent
Large	\$1,355,992	May 30, 2000	\$2,712,960	50 Percent
Large	\$2,224,781	March 1, 2000	\$4,213,440	53 Percent

The excess cash on hand at the Districts resulted in an imputed interest cost to the U.S. Government. All Indiana Districts, on average, carried over about 14 percent of the \$81.9 million received during the 1999 grant year. Using the 5 percent U.S. Treasury Current Value of Funds Rate (CVFR), we estimate the additional interest cost for excess cash carried over could have been as much as \$49,000 a month.

Recommendation

The Assistant Secretary for the Office of Special Education and Rehabilitative Services should instruct DSE to ensure it requests funds from the Department and disburses funds to Districts based on immediate needs.

BACKGROUND

The purpose of IDEA is to (1) ensure that children with disabilities have available to them a free appropriate public education that emphasizes special education and related services designed to meet their unique needs and prepare them for employment and independent living; (2) ensure that the rights of children with disabilities and parents of such children are protected; and (3) assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities. IDEA was enacted in 1975 and is scheduled for reauthorization in 2002.

The IDEA programs are governed by regulations contained in 34 CFR Part 300, *Assistance to States for the Education of Children with Disabilities*. In addition, IDEA is subject to the provisions contained in the *State Administered Programs* (34 CFR Part 76), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 CFR Part 80), and *General Education Provisions Act-Enforcement* (34 CFR Part 81) regulations.

For grant year 1999, the Department allocated \$101.1 million to DSE for IDEA. Of that amount, DSE kept \$17.3 million for administration and state level activities and allocated \$83.8 million to its 65 Districts based on an annual child count of special education students. DSE provided Indianapolis Public Schools with \$4.2 million, South Bend Community School Corporation with \$2.7 million, Porter County Special Education Interlocal with \$1.9 million, Fayette County Schools with \$1.6 million, School City of Hammond with \$1.0 million, and LaPorte Community Schools with \$860,500.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine: (1) the extent and reasons for carryovers at selected Districts, and (2) if the DSE monitors Districts' carryovers.

To meet our objectives, we reviewed (1) DSE policies and procedures for managing, monitoring, and reporting on Districts' carryovers; (2) DSE accounting records, reports on IDEA funds

disbursed to Districts, carryover application memoranda, Voucher Abstracts, Claim Vouchers, Schedules of Payments, State Additional Pupil Count Reports, and the Table of Funds from the 1998 Biannual Financial Report; and (3) the Cash Management Improvement Act agreement between the State of Indiana and the U.S. Treasury. We reviewed IDEA grant applications, receipt and expenditure data, and carryover applications (budgets) and expense reports.

We reviewed findings from the 1998 and 1999 single audit reports for the State of Indiana, and researched the Office of Special Education Program's web page for recent monitoring reports. In addition, we interviewed officials from DSE, six Districts, the Indiana Auditor of State, the Indiana State Board of Accounts, and the Department.

To achieve the assignment's objectives, we relied on data contained in DSE's and the six Districts' databases. We obtained IDEA disbursement data using the Department's Central Automated Processing System/Grant Administration and Payment System (EDCAPS/GAPS). We then verified that disbursement information in DSE's database agreed with EDCAP/GAPS information and with receipt information in the six Districts' databases. We did not verify the reliability of District expenditure data because the data was not critical to meeting the objectives of the audit. However, during our audit, nothing came to our attention that caused us to doubt the acceptability of the data.

Our audit covered the 1996, 1997, 1998, and 1999 grant award years. We performed field work at DSE in Indianapolis, Indiana, from January 8, 2001, through January 11, 2001. We also performed field work at six Districts from January 10-12 and January 22-26, 2001. We conducted our audit in accordance with government auditing standards appropriate to the scope of review.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we gained an understanding of DSE's management control structure, as well as its policies, procedures, and practices applicable to the scope of the audit. We identified applicable significant controls at DSE related to carryovers, monitoring of District carryovers, and cash management. We gained an understanding of the policies, procedures, and practices related to carryovers and cash management at the six Districts. Due to inherent limitations, gaining an understanding of management controls would not necessarily disclose material weaknesses. However, we identified a significant weakness related to cash management at DSE and the six Districts. The Audit Results section of this report fully discusses this weakness and its effect.

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

Robert Pasternack
Assistant Secretary for Special Education
and Rehabilitative Services
FOB 6, Room 7W103
400 Maryland Avenue
Washington, DC 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.

Sincerely,

A handwritten signature in black ink that reads "Lorraine Lewis". The signature is written in a cursive, flowing style.

Lorraine Lewis

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