



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

400 MARYLAND AVENUE, S.W.  
WASHINGTON, DC 20202-1500



December 29, 2005

**Control Number ED-OIG/A07F0014**

Dr. Henry L. Johnson  
Assistant Secretary  
Office of Elementary and Secondary Education  
U.S. Department of Education, Room 3W315  
400 Maryland Avenue, SW  
Washington, DC 20202

Dear Dr. Johnson:

This **Final Audit Report**, titled *The U.S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions* presents the results of our audit. Our objectives were to determine (i) what the U.S. Department of Education (Department) has done to assist State Education Agencies (SEAs) in modifying or eliminating state fiscal and accounting barriers to consolidating funds and encouraging schools to consolidate funds in their schoolwide programs; and (ii) what the Department could do to further assist SEAs in these two areas. Our review covered the period July 1, 2004, through June 30, 2005.

## **BACKGROUND**

### **Federal Legislation on Consolidating Funds in Schoolwide Programs**

The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, 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 in order 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.

Congress, under the No Child Left Behind Act, effective January 8, 2002, stated that SEAs 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.

### **Departmental Units Responsible for Consolidating Funds**

The organizational unit responsible for implementing the Department's responsibilities regarding consolidating funds in schoolwide programs is the Student Achievement and School Accountability (SASA) unit in the Office of Elementary and Secondary Education (OESE). Local educational agencies (LEAs) and schools have been advised to contact SASA if they have any questions about consolidating funds. Within SASA, the Policy Coordination Group is responsible for, among other things, assisting in the development of guidance relative to the provisions of the No Child Left Behind Act. The Monitoring and Audit Group, also within SASA, is responsible for implementing monitoring procedures issued by SASA.

### **OIG Reviews of SEA Administration of Provisions Relating to Consolidating Funds**

We issued a report titled "Combining Funds in Schoolwide Programs" in March 2000 (ED-OIG/A0490008), in which we reported the results of interviews with officials from 15 SEAs, 16 LEAs and 13 schools. In that report we recommended that the Assistant Secretary for Elementary and Secondary Education should work with other Assistant Secretaries to "consider whether it would be useful to provide additional guidance in publications to help state and local educational agencies address concerns that may prohibit them from allowing schools to combine funds in schoolwide programs." We also recommended that the Assistant Secretary consider whether it would be useful to work with federal and state education officials to assist SEAs in understanding how combining funds would work in a schoolwide setting. In general, the Assistant Secretary concurred with our recommendations. He indicated, however, that his office did not have immediate plans to develop a fiscal guide for schoolwide programs. He stated that "the primary focus at this time is to ensure the correct implementation of schoolwide programs."

Since April 2004, we conducted additional reviews of SEA administration of consolidating funds provisions. We audited SEAs in Missouri and Illinois<sup>1</sup> to determine if they were fulfilling their responsibilities to encourage schools to consolidate funds in their schoolwide programs and to modify or eliminate state fiscal and accounting barriers so that these funds can easily be consolidated. We found that neither state had encouraged schools to consolidate funds in their schoolwide programs, but also that neither state had fiscal and accounting barriers to consolidating funds.

In addition to these two audits, we conducted a survey of nine SEAs to determine if they had encouraged consolidating funds and if they had modified or eliminated state fiscal and

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<sup>1</sup> *Missouri Department of Elementary and Secondary Education Consolidating Funds in Schoolwide Programs (ACN ED-OIG/A07E0018) and Illinois State Board of Education Consolidating Funds in Schoolwide Programs (ACN ED-OIG/A07E0029).*

accounting barriers to consolidating funds. The cumulative results of our audits and our survey of SEA administration of the consolidating funds provisions are presented as Attachment 1.

## AUDIT RESULTS

We found that the Department has provided some assistance to SEAs in modifying or eliminating state fiscal and accounting barriers to consolidating funds and encouraging schools to consolidate funds in their schoolwide programs. It published a notice in the *Federal Register* on July 2, 2004 (Vol. 69, No. 127) that, among other things, reminded readers that SEAs are required to encourage schools to consolidate funds in their schoolwide program and indicated that the Secretary intended to issue guidance in the near future. It has also offered additional guidance in the form of questions and answers on its website, at [http://www.ed.gov/legislation/ESEA/Title\\_1/swpguid1.html#fedfund](http://www.ed.gov/legislation/ESEA/Title_1/swpguid1.html#fedfund).

The Department, however, has not published the guidance on schoolwide programs it promised to publish and has not written up findings about SEAs that it discovered, during site visits, were not encouraging the consolidation of funds. Department officials told us that the delay in publishing guidance for consolidating funds was a matter of priority. However, the delay may have contributed to SEAs' failure to encourage consolidation of funds in schoolwide programs and the lack of utilization of the option by LEAs.

We received your comments regarding our draft report, which concurred with both findings. While you indicated qualified concurrence with the recommendations for Finding No. 1, you indicated that you could not concur with the 2<sup>nd</sup> recommendation for Finding No. 2 at this time. Your comments are summarized at the end of each finding. The full text of the comments on the draft report is included as Attachment 2 to the report.

**FINDING NO. 1 – The Department could do more to support SEAs in fulfilling their responsibilities under the schoolwide consolidating funds provisions by publishing the guidance on schoolwide programs it promised in the July 2, 2004, notice in the *Federal Register*.**

The Department has not published promised non-regulatory guidance on schoolwide programs. We found through our review of SEAs and our interviews with Department staff who conduct site-visits of SEAs that a lack of guidance from the Department was a reason given by SEAs for not fulfilling their responsibility to encourage consolidating funds.

The July 2004 *Federal Register* stated, “The Secretary intends to issue additional guidance on schoolwide programs in the near future.” At least one draft, dated December 4, 2004, had been prepared and circulated among Departmental officials for comment. However, as of August 26, 2005, the Department had not published the guidance. Also, the draft guidance contained limited

guidance for LEAs on consolidating funds<sup>2</sup> and did not mention the responsibilities of SEAs to encourage consolidating funds and to eliminate or modify state barriers to consolidating funds. While the July 2004 notice did not state explicitly that the promised guidance would cover consolidating funds, it was reasonable to assume that it would do so since virtually all of the notice dealt with the issue of consolidating funds.

Although three SEAs had developed extensive guidance for LEAs and schools on consolidating funds, officials of two SEAs specifically told us that they had not taken action to fulfill their responsibilities under the consolidating funds provisions because of lack of guidance from the Department. Department officials who conducted on-site reviews of SEAs during the period July 1, 2004, through June 30, 2005, confirmed that a common reason given by SEAs for not encouraging consolidation was that the Department had not issued guidance on what consolidation was and how to implement it.

The Department explained that the reason it had not published guidance on consolidating funds earlier was a matter of priority. It said that after any new major legislation, such as the No Child Left Behind Act, they always work on the most fundamental issues first and then proceed to other issues. It said that, from its beginnings, the basic concept of schoolwide programs has been that whatever services a school determines are needed to improve student achievement should drive everything else at the school. The Department commented that consolidating funds should not be seen as a desired end in and of itself. Some schools might find it to be a means to achieving the end of maximizing student achievement but others might not.

However, in the Assistant Secretary's January 19, 2001, response to our March 2000 report, he committed his office to provide technical assistance and support for state and local efforts in the area of combining funds in schoolwide programs and the other flexibility provisions of the Improving America's Schools Act. In 2002, in the No Child Left Behind Act, Congress itself indicated that a schoolwide program's consideration of the option of consolidating funds was important enough to the correct implementation of schoolwide programs to place new requirements on SEAs that would have the effect of making it easier for LEAs and schools to consolidate funds.

After we had completed our fieldwork for this audit, we discussed our findings with officials from OESE and other Department offices. OESE and the Office of the Chief Financial Officer agreed that a guidance document should be developed "that would set out best practices related to accounting principles for the consolidation of funds." SASA proposed that it be the lead office for the development of this document.

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<sup>2</sup> For example, in the discussion of integrating federal, state, and local services and programs, there was no mention of integrating resources; and in the discussion of establishing a schoolwide planning team, there was no mention of the fiscal personnel that would be needed to implement the consolidating funds option, should the school choose to do so.

## Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education require the Director of Student Achievement and School Accountability Programs to ensure that her staff:

- 1.1 Develop and issue guidance on consolidating federal, state, and local funds in schoolwide programs that would include:
  - a. Options on consolidating funds that would best accommodate federal programmatic and reporting requirements, and
  - b. Information about the potential advantages of consolidating funds.
- 1.2 As part of developing new guidance on consolidating funds, meet with officials from the three SEAs that we found to have developed the most extensive guidance on consolidating funds in order to:
  - a. Ensure that the Department's guidance in this area takes advantage of the most promising practices, and
  - b. Learn what SEAs perceive to be federal barriers to consolidating funds.

## OESE Comments

OESE concurred with this finding and indicated qualified concurrence with its recommendations in its memorandum dated November 21, 2005.<sup>3</sup> OESE stated that it was working to obtain final clearance on a document giving guidance for schoolwide programs and was also working to gain clearance on Title I fiscal guidance that would, among other things, address consolidating funds in schoolwide programs. It noted, however, that OCFO was interpreting the Office of Management and Budget Compliance Supplement to require semi-annual time and effort certification for employees in schoolwide programs as with other school employees. OESE stated that it believes that these semi-annual certifications are not required for schoolwide programs that consolidate funds and it indicated that if this issue is resolved in favor of flexibility for schoolwide programs, it was "prepared to provide more specific guidance and examples on ways LEAs and schools may account for consolidated funds in schoolwide settings."

**FINDING NO. 2 – Even though Department site-visitors have found that SEAs generally have not encouraged LEAs and schools to consolidate funds in their schoolwide programs, they have not included these findings in site-visit reports.**

During the period July 1, 2004, through June 30, 2005, Department officials conducted on-site reviews of at least 16 SEAs. All but one reviewer told us in interviews that the SEAs were doing little, if anything, to encourage LEAs to consolidate funds, as required. Yet, none of the reports covering these reviews contained any findings or recommendations for corrective action relating

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<sup>3</sup> OESE submitted three sets of comments: the first was dated November 18, 2005, the second was dated November 21, 2005, and the third was dated December 28, 2005. We considered the November 18, 2005, comments to be technical corrections and the November 21 and December 28 comments to be the official comments to the draft report.

to SEA responsibilities under the consolidating funds provisions. As a result, SEAs will possibly continue to pay little attention to the provisions and their potential benefits.

Department officials reported that SEAs generally are neither positive nor negative about the option of consolidating funds when SEAs present it to LEAs and schools. If the advantages in consolidating funds were more widely publicized, more LEAs might take advantage of the option. Only 9 of the 76 LEAs we covered in our audits and survey reported that they consolidated funds. The benefits that were reported by LEAs that were using the option might not be fully appreciated by other LEAs if these potential benefits are not explained to them. The main benefits cited by LEAs were that the option made it easier for them to accomplish the goals of their schoolwide programs and reduced their paperwork or accounting burdens.

The Department is responsible for overseeing SEAs, as it is with other entities that participate in federal education programs, to ensure that they comply with federal requirements. It may not be fulfilling its oversight responsibility with respect to the SEA consolidating funds provisions because site-visitors in the SASA Monitoring and Audit Group are not aware of relevant site-visit procedures in a monitoring protocol<sup>4</sup> issued by SASA in January 2005. This protocol directed site-visitors to determine how a SEA encourages LEAs and schools to combine funds within schoolwide programs and if the SEA has identified and minimized barriers to combining funds in schoolwide programs. We learned from Department staff who conducted SEA site visits that they did not recall seeing this monitoring protocol. One site-visitor said that the guide he used did not cover the SEA consolidating funds requirements. However, OESE officials advised us that every staff member conducting any monitoring of SEAs did so using the SASA monitoring protocol.

### **Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education require the Director of Student Achievement and School Accountability Programs to ensure that her staff

- 2.1 Follow the Department's current SEA monitoring procedures with respect to the consolidating funds responsibilities of SEAs.
- 2.2 Include in reports for SEA program reviews findings, and recommendations for corrective action, regarding any failures on the part of SEAs to fulfill their responsibilities under the provisions in Title I, Part A, §§ 1111(c)(9) and (10).

### **OESE Comments**

In OESE's memorandum dated December 28, 2005, it concurred with this finding and the first of its recommendations, but indicated that it could not concur with its second recommendation at this time. It stated that the primary reason Department monitors have not pursued the issue of

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<sup>4</sup> The full title of this document is "Student Achievement and School Accountability Program (SASA) Internal Monitoring Procedures for Title I, Part A Formula Grant Programs for October 1, 2004 to September 30, 2005."

consolidating funds with SEAs is an apparent contradiction between the No Child Left Behind Act and an OMB Compliance Supplement requirement for semi-annual certifications for employees who work on activities supported with consolidated federal, state, and local funds.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our audit were to determine (i) what the Department has done to assist SEAs in modifying or eliminating state fiscal and accounting barriers to consolidating funds and encouraging schools to consolidate funds in their schoolwide programs; and (ii) what the Department could do to further assist SEAs in these two areas.

To accomplish our objectives, we

- Reviewed applicable federal law and regulations;
- Interviewed Department officials;
- Reviewed the results of our on-site audits of Missouri and Illinois as background for planning our survey of states regarding the consolidating funds provisions;
- Planned the survey of states to determine the extent of the need for any further assistance the Department might be able to offer the states in meeting their responsibilities under the consolidating funds provisions;
- Disseminated survey questionnaires to nine SEAs;
- Conducted follow-up interviews with the SEAs;
- Interviewed officials from 37 LEAs that had schools with schoolwide programs; and
- Analyzed and summarized the information we obtained from the SEA and LEA officials we had interviewed as part of our survey and our audits of Missouri and Illinois.

We identified the SEAs for our survey by selecting three SEAs (South Carolina, Texas, and Washington) that we knew had developed guidance for consolidating funds in schoolwide programs. We then stratified the states into four tiers in terms of the amount of Title I money they had been awarded for 2004-05. Next, we randomly selected six states to ensure that, counting the two states we had audited (Missouri and Illinois), at least two states from each of the three tiers with the most heavily funded states were included and one state from the tier with the lowest funded states was included. We also accounted for geographic distribution by ensuring that all seven of the OIG regions were represented.

We interviewed officials from at least three LEAs for each of the nine states covered by our survey. We randomly selected three LEAs from each state in our survey from lists of LEAs having schools with schoolwide programs that had been provided to us by the SEAs. We also interviewed officials from 10 additional LEAs that SEAs had identified as being exemplary in their use of the consolidating funds option.

We conducted our interviews with SEA and LEA officials during the period from May 2 to June 21, 2005. We held a final exit conference with Department officials on August 26, 2005. Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

### **ADMINISTRATIVE MATTERS**

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. An electronic copy of this report has been provided to your Audit Liaison Officer.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

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.

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

Sincerely,

/s/

Helen Lew  
Assistant Inspector General  
for Audit Services

Attachments



## **ATTACHMENT 1: SEA ADMINISTRATION OF PROVISIONS RELATING TO CONSOLIDATING FUNDS IN SCHOOLWIDE PROGRAMS**

Our review included audits of SEAs in Illinois and Missouri and a survey of SEAs in Iowa, Colorado, Georgia, Michigan, New York, South Carolina, Texas, Virginia, and Washington. The objectives of our audits and survey of states were to determine (i) if their SEAs had encouraged schools to consolidate funds from federal, state, and local sources in their schoolwide programs; (ii) if their SEAs had 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. The results of our review are listed below.

### **Are SEAs Modifying or Eliminating State Fiscal and Accounting Barriers to Consolidating Funds?**

The 11 SEAs covered by our survey and audits reported that there were no state fiscal and accounting barriers to consolidating funds. The LEA officials we interviewed generally concurred with this assessment, although officials from 13 of the 76 LEAs covered by our survey and audits reported that they tracked funds separately to satisfy audit or state preferences or requirements (such as state reporting requirements).

### **Are SEAs Encouraging LEAs and Schools with Schoolwide Programs to Consolidate Funds?**

Five of the 11 SEAs covered by our survey and audits submitted documentation to us that showed, at least to some degree, that they were encouraging LEAs and schools to consolidate funds in their schoolwide programs. However, we had selected three of these SEAs because we had prior knowledge that they were doing so.

Four of the five SEAs that had encouraged consolidating funds had published guidance for their LEAs and schools on how to consolidate funds and two of them had created new fund (or object-class) codes for accounting for the consolidated funds. Other types of encouragement that SEAs reported were providing on-site technical assistance regarding consolidating funds and making presentations on consolidating funds at workshops and conferences. One SEA reported making regional, statewide, and national presentations on the topic.

However, one of the three SEAs that had done the most to develop and publicize systems for consolidating funds stated that it had become "prohibitively expensive" for schools to set up the accounting and grants systems required to consolidate funds on a full-scale basis and asked if the Department was taking any steps to stop or reverse the trend in establishing new program restrictions and requirements that make it increasingly difficult to consolidate funds.

In our survey questionnaire, we did not ask specifically why SEAs were not encouraging LEAs and schools to consolidate funds, but we did ask them to explain what the SEAs saw as potential advantages and disadvantages to consolidating funds. The following are some of their answers to these questions that indicate why some SEAs are not encouraging consolidating funds:

- “Given the flexibility in using funds from various sources, we do not see advantages in consolidating funds.”
- “As long as the requirements remain to report each program individually, there is potential to make the record-keeping more complex than it would be if funds were not consolidated.”
- Consolidating funds may give the “perception that funds are not being used to serve the intended population.”
- The Department has not provided the guidance on consolidating funds that it said would be issued in the near future.
- We have not done more to discuss consolidating funds with LEAs and schools because of other priorities, such as adequate yearly progress and the option of transferring funds between ESEA programs.
- Consolidating funds would create a burden on the LEAs for devising new reporting and other data systems.

### **Are Schools with Schoolwide Programs Consolidating Funds?**

Of the 76 LEAs we reviewed in our audits and survey, all of which had schools with schoolwide programs, 9 were taking advantage of the consolidating funds option.

### **What Reasons Did LEAs Give for Consolidating Funds?**

The most common reasons cited for consolidating funds were as follows:<sup>5</sup>

- Five LEAs stated that it reduced paperwork or accounting burdens for them;
- Three LEAs stated that it made it easier to accomplish the goals of their schoolwide programs, e.g., that it allowed them greater flexibility in the use of funds; and
- Two LEAs, in one state, commented that their State Auditor or their SEA required them to consolidate funds. (In this state, SEA officials also indicated that their State Auditor had interpreted the consolidating funds provisions as requiring that schools consolidate funds in their schoolwide programs.)

### **What Reasons Did LEAs Give for Not Consolidating Funds?**

The most common reasons cited for not consolidating funds were as follows:<sup>5</sup>

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<sup>5</sup> Because some LEAs gave more than one reason for consolidating funds in their schoolwide programs, the total number of reasons listed does not equal the total number of LEAs in each category.

- Twenty-two LEAs stated that it appeared to them that it was easier not to consolidate funds;
- Fourteen LEAs stated that they did not know that the option was available to them;
- Thirteen LEAs believed that it was necessary to track funds separately to satisfy audit or state requirements or preferences;
- Ten LEAs stated that they had no need to consolidate funds or saw no advantage to consolidating funds;
- Nine LEAs stated that they had always kept funds separate and they just continued to do so;
- Four LEAs stated that they had enough money from Title I to do what they wanted in their schoolwide programs; and
- Four LEAs stated that they did not know how to consolidate funds.

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<sup>5</sup> 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 in each category.

**ATTACHMENT 2**

November 21, 2005

TO: Richard J. Dowd  
Regional Inspector General for Audit

FROM: Jeanette J. Lim /s/  
Deputy Assistant Secretary  
Office of Elementary and Secondary Education (OESE)

SUBJECT: Comments on the Draft Audit Report, *U. S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions*, #ED-OIG/A07F0014

Attached please find supplemental comments on the Office of Inspector General's Draft Audit Report, *U. S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions*, ACN ED-OIG/A07F0014. This supplements our previous comments transmitted to you on November 18, 2005, which addresses the findings of the report and provides updated information. If you have any questions, please contact Chuck Laster at 202-205-2189.

Attachment

**SUPPLEMENTAL COMMENTS FROM STUDENT ACHIEVEMENT AND SCHOOL ACCOUNTABILITY PROGRAMS (SASA) DRAFT AUDIT REPORT, U. S. DEPARTMENT OF EDUCATION'S ACTIVITIES RELATING TO CONSOLIDATING FUNDS IN SCHOOLWIDE PROGRAMS PROVISIONS, ACN: ED-OIG/A07F0014**

Following are comments that supplement what OESE previously transmitted on the above referenced draft audit report and that also address the findings:

The Student Achievement and School Accountability (SASA) office is in the process of incorporating comments on its schoolwide guidance from the various offices in the Department and is working to obtain final clearance so that we can release this document.

In addition, SASA's guidance on Title I fiscal issues is in the clearance process. The guidance will, among other things, address consolidation of funds in schoolwide programs. One specific issue that this guidance addresses are LEA requirements with regard to documenting employee time and effort in schools that operate schoolwide programs, which is seen as a major barrier at the local and State level to consolidating funds.

Because a schoolwide program school may consolidate funds from different Federal programs, the draft guidance takes the position that a school or LEA is "not required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds as long as the school maintains records that demonstrate that the schoolwide program, considered as a whole, addresses the intent and purposes of each of the Federal programs that were consolidated to support the schoolwide program." (See section 1114(a)(3)(C) of the Title I statute.) In other words, a schoolwide program school does not have to track the expenditure of federal funds to particular activities; hence, it does not know which personnel are funded with federal funds.<sup>6</sup>

However, this position contrasts with the OMB Compliance Supplement used by auditors to audit Federal programs. At the insistence of OCFO, the Compliance Supplement requires semi-annual certifications for those employees in a schoolwide program who work on activities supported with consolidated Federal, State and local funds. This provision appears to contradict the provision in section 1114(a)(3)(C). We believe that semi-annual certifications are not required in a schoolwide program that consolidates Federal, State, and local funds.

This area of policy concerning semi-annual certification of employee activity has impeded States from modifying current accounting practices that would eliminate fiscal barriers to consolidating Federal, State, and local funds in school operating schoolwide programs. In monitoring visits to the States, State officials have repeatedly indicated to our staff their reluctance to modify their

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<sup>6</sup> This is essentially the position of the old schoolwide guidance issued in 1996.

accounting practices with regard to schoolwide programs until this apparent contradiction is resolved.

If this issue is resolved in favor of being more flexible, SASA is prepared to provide more specific guidance and examples on ways LEAs and schools may account for consolidated funds in schoolwide settings.

DEC 28, 2005

TO: Richard J. Dowd  
Regional Inspector General for Audit

FROM: Jeanette J. Lim /s/  
Deputy Assistant Secretary  
Office of Elementary and Secondary Education (OESE)

RE: OESE Comments on the Draft Audit Report, *U. S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions, #ED-OIG/A07F0014*

Thank you for the opportunity to provide supplemental comments to the Office of Inspector General's Draft Audit Report, *U.S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions, #ED-OIG/A07F0014* specific to Finding Number two. This response supplements our previous comments transmitted to you on November 18 and November 21, 2005.

With regard to Finding Number two and the concomitant recommendations set forth in the report, OESE would like to offer the following comments:

**FINDING NO. 2 – Even though Department site-visitors have found that SEAs generally have not encouraged LEAs and schools to consolidate funds in their schoolwide programs, they have not included these findings in site-visit reports.**

The report states that during the period July 1, 2004 through June 30, 2005, Department officials conducted reviews of 16 LEAs but that none of the monitoring reports resulting from these reviews contained any findings or recommendations for corrective action relating to SEA responsibilities under the consolidating funds provisions.

The Department does not dispute this finding. The Department's program monitors have not pursued this issue primarily due to the apparent contradiction between the requirements in the No Child Left Behind (NCLB) statute at section 1114(a)(3)(C) which states that a schoolwide program school does not need to track the expenditure of Federal funds to specific activities or funded positions, and the OMB Compliance Supplement requirement for semi-annual certifications for employees who work on activities supported with consolidated Federal, State and local funds. LEAs interviewed as part of the Department's monitoring process most often cite these requirements as the reason they do not consolidate funds in their schoolwide programs.

Regarding the recommendations, the Department will continue to follow the current SEA monitoring procedures with respect to the consolidating funds responsibilities of SEAs,

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as it does for all Title I requirements under NCLB (Recommendation 2.1). The Department will not, however, include findings and corrective actions in monitoring reports in this specific area (Recommendation 2.2) until the contradiction between NCLB and OMB Compliance Supplement requirements is resolved.