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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND
REPORT DIGEST

**ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AND COMPLIANCE AUDIT**
(In accordance with the Single Audit Act of 1984
and OMB Circular A-128)
For the Two Years ended June 30, 1994

5-94-51300-10

SYNOPSIS

- The State Board of Education (Agency) did not have a documented methodology or supporting justification to support indirect cost rates approved in contracts awarded to private organizations.
- The Agency did not establish adequate controls over its Local Area Network (LAN). Further, it did not have an effective, independent computer security administration function.
- The Agency incurred excess costs under a contract with a for-profit vendor by not requiring proper rationale for how the contractor arrived at budgeted costs which were approved in the contract.
- The Agency's various federal program areas did not document their follow up and resolution of Local Education Agency audit report findings and questioned costs on a timely basis as required by federal regulations. This condition has existed since 1986.
- The Agency did not adequately monitor expenditure reports and payment schedules to prevent recipients from accruing excessive cash balances.
- The Agency failed to adequately document the monitoring of certain grant funds; failed to formally monitor other grant funds; and failed to resolve unallowable grant expenditures noted.
- The Agency continued to award Carl D. Perkins Vocational Education Act Funds to a contractor when the contractor already had accumulated cash balances in excess of \$500,000.
- The Illinois Council on Vocational Education paid a "one time bonus" totalling \$11,220 to an employee on a June 30, 1993 payroll voucher. The State Board of Education acts as fiscal agent for the Illinois Council on Vocational Education.

{Expenditures and Activity Measures are summarized on the reverse page.}

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**STATE BOARD OF EDUCATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1994**

| APPROPRIATION ANALYSIS | FY 1994 | FY 1993 |
|--|------------------------|------------------------|
| Final Appropriations | <u>\$4,381,598,431</u> | <u>\$4,220,908,800</u> |
| Expenditures | | |
| Administrative | \$ 57,349,213 | \$ 49,654,816 |
| Distributive | <u>4,227,053,414</u> | <u>4,077,844,827</u> |
| Total Expenditures | <u>\$4,284,402,627</u> | <u>\$4,127,499,643</u> |
| Lapsed Balances | \$ 97,195,804 | \$ 93,409,157 |
| ADMINISTRATIVE EXPENDITURES | FY 1994 | FY 1993 |
| Personal Services | \$36,793,351 | \$32,405,225 |
| Contractual Services | 15,055,397 | 12,112,993 |
| Travel | 1,740,810 | 1,564,534 |
| Commodities | 240,113 | 258,790 |
| Printing | 414,260 | 461,528 |
| Equipment | 822,334 | 1,330,209 |
| Telecommunications | 565,438 | 539,338 |
| Operation of Auto. Equipment | 18,815 | 18,897 |
| Interfund cash transfer | 759,200 | 23,733 |
| Interest penalty general State-aid | <u>939,495</u> | <u>939,569</u> |
| Total appropriated administrative expenditures | <u>\$57,349,213</u> | <u>\$49,654,816</u> |

| SELECTED SUPPLEMENTARY INFORMATION | FY 1994 | FY 1993 |
|--|----------------------|----------------------|
| Average Number of Employees | 800 | 769 |
| Property and Equipment, at cost | \$ 8,801,929 | \$ 8,045,509 |
| Total Accounts Receivable | \$ 81,443,000 | \$ 80,071,000 |
| Liability for accrued vested vacation and sick pay | \$ 5,940,000 | \$ 4,374,000 |
| Cash receipts | | |
| State Operating Funds | \$ 1,414,510 | \$ 1,669,998 |
| Special State Funds | 1,054,307 | 584,088 |
| State Trust Funds | 405,125 | 327,366 |
| Federal Trust Funds | <u>788,904,465</u> | <u>767,904,187</u> |
| Total Cash Receipts | <u>\$791,778,407</u> | <u>\$770,485,639</u> |

| STATE SUPERINTENDENT OF EDUCATION | |
|-----------------------------------|---|
| During Audit Period: | Robert Leininger (July 1, 1992 - February 28, 1994) Mary Jayne Broncato (March 1, 1994 - June 15, 1994) Joseph Spagnolo (June 16, 1994 - June 30, 1994) |
| Currently: | Joseph Spagnolo |

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

NEED TO IMPROVE DOCUMENTATION AND JUSTIFICATION FOR INDIRECT COST RATES APPROVED IN CONTRACTS

The State Board of Education (Agency) did not have a documented methodology or supporting justification to support indirect cost rates approved in contracts awarded to private organizations.

Some contracts examined allowed for no indirect costs while others ranged from 5% to 15% of total direct costs or other cost basis in the contract budget. One vendor had approved indirect cost rates of 5% on some contracts and 8% on others. Further, Agency program personnel could not provide supporting documentation justifying indirect cost rates approved in the contracts.

We recommended that the Agency establish procedures to ensure all indirect cost rates are consistently documented and justified for contracts awarded to private organizations. (Finding No. 1, page 9)

Agency officials stated they agreed with the recommendation.

NEED TO IMPROVE CONTROLS OVER THE LOCAL AREA NETWORK AND DEVELOP AN EFFECTIVE COMPUTER SECURITY ADMINISTRATION FUNCTION

The Agency has not established adequate controls over its Local Area Network (LAN), and has not developed an effective, independent computer security administration function.

Over \$1.2 million has been invested in computing hardware. Critical applications on the LAN, such as the Management Information Database Accounting System and the Financial Reimbursement Information System cost over \$300,000 to develop. The Agency does not have adequate procedures in place to ensure that control over the LAN is sufficient. In addition, a review of the Agency's mainframe and LAN security administration procedures revealed several significant weaknesses.

We recommended specific courses of action focusing upon the Agency's development of standard guidelines to ensure that security controls are adequately addressed on their LAN. We also recommended multiple courses of action designed to improve computer security administration functions relating to mainframes and LANs. (Findings 11 and 12, pages 20-23)

Agency officials stated they will continue to develop the controls noted in our recommendation pertaining to Local Area Networks. With regard to the security administration function, they indicate general agreement with the recommendations, but state the issue will require additional information before a structure can be determined.

E. J. J.

page 11

NEED TO ENHANCE CONTRACTING PROCEDURES

The Agency incurred excess costs under a \$200,000 contract with a for-profit vendor by not requiring proper rationale for how the contractor arrived at the budgeted costs which were approved in the contract.

The contract budget did not include the methodology for computing salary billing rates. However, the budget did include an arbitrary indirect cost rate of 8% of total direct costs. Without documentation of the methodology used by the vendor in establishing contract billing rates and indirect costs rates, the Agency cannot ensure that certain costs are not being included as both direct and indirect costs.

It also appears that program personnel did not conduct any fiscal monitoring of the contract. If the Fiscal Operations Section had not included this contract in its sample of contracts to review, no monitoring of the contract would have been performed. As a result of the audit performed by the Agency's Fiscal Operations Section, a total of \$19,747 of disallowed costs were identified.

We recommended that the Agency require vendors to provide a methodology regarding how billing rates are computed for salaries on contracts in which indirect costs are computed as a percentage of total direct costs. Further, procedures should be established to adequately review all supporting documentation of direct costs claimed before the contract billing is approved for payment. (Finding No. 14, pages 26 and 27)

Agency officials stated their vocational education audit process had already identified these items and they are in the process of modifying their procedures which should alleviate future difficulties.

NEED TO IMPROVE UPON THE TIMELY RESOLUTION OF LOCAL EDUCATION AGENCY AUDIT FINDINGS

The Agency's various federal program areas do not document their follow up and resolution of Local Education Agency (LEA) audit report findings and questioned costs on a timely basis as required by federal regulations. This finding has been repeated since 1986.

The Agency's Internal Audit Department reviews all federal noncompliance audit findings and submits these to the appropriate program managers upon receipt of the reports. The program managers are responsible for follow up and resolution of all noncompliance findings and questioned costs.

Federal regulations (OMB Circular A-128) require the Agency to ensure that appropriate corrective action is taken six months after receipt of an audit report in instances of noncompliance with federal laws and regulations.

We recommended that the Agency implement procedures to ensure that appropriate corrective action is taken within six months after receipt of an audit report in instances of

noncompliance with federal laws and regulations. We also recommended they develop standardized audit resolution procedures to clearly document the resolution of Local Education Agency audit report findings and questioned costs. (Finding No. 29, pages 155 and 156)

Agency officials stated that it is their intent to comply with all regulations in this area and that additional review and development of procedures will be undertaken. (For previous Agency responses, see Digest Footnote 1.)

LACK OF MONITORING TO ENSURE RECIPIENTS DO NOT ACCRUE EXCESSIVE CASH BALANCES

The Agency did not adequately monitor expenditure reports and payment schedules to prevent recipients from accruing excessive cash balances.

Under three federal programs, payments to recipients were processed when there was adequate cash-on-hand to fund grant activities. The recipient's cash-on-hand ranged from \$7,674 to \$235,801 when additional payments to the recipients were made.

We recommended that the Agency more carefully monitor expenditure reports and payments to keep recipient cash balances to a minimum, and make cash advances based on demonstrated need. (Finding No. 35, pages 164 and 165)

Agency officials stated they monitor cash positions and will continue to limit cash-on-hand to funds necessary to meet programmatic needs.

FAILURE TO ADEQUATELY MONITOR FEDERAL GRANT FUNDS

The Agency failed to adequately document the monitoring of certain federal grant funds; failed to formally monitor other grant funds; and failed to resolve unallowable grant expenditures noted.

During fiscal years 1993 and 1994, the Job Training Partnership Act "8%" projects did not have formal monitoring performed at least once during the contract period as required by the grant agreement. Although no formal monitoring was performed on all projects, there was evidence during our testing of the program that there was informal communication with all subrecipients.

During testing of monitoring reports for projects receiving Drug-Free Schools and Communities Act grants, we noted that unallowable expenditures were cited for one of the projects which received \$6,854,042. Upon further review, we determined that the Agency made no attempt to recover the misspent funds. The monitoring report failed to cite a dollar total of unallowable expenditures and did not request that these funds be repaid to the Agency.

A review of discretionary project files for the Federal, State and Local Partnership for Educational Improvement Act revealed no documentation to verify that monitoring had been performed. Further, the Agency does not adequately document program monitoring of

subrecipients receiving grants under the Early Intervention Program for Infants and Toddlers with Disabilities. Agency personnel stated that monitoring documentation was not a priority.

We recommended the Agency either comply with the grant agreement and monitor all projects or change the requirements set forth in the grant agreement. Further, we recommended the Agency follow existing procedures for monitoring follow-up. We also recommended that monitoring reports identify the amounts of unallowable expenditures and the Agency take appropriate corrective action. We further recommended the Agency adequately document monitoring activities performed on grant funds to ensure compliance with federal regulations. (Finding Nos. 36-38, pages 166-171)

Agency officials stated that due to severe staff shortages, monitoring Job Training Partnership Act projects in FY93 was limited. For FY94, only 6% of the projects were not formally monitored. However, to insure 100% coverage, the Agency will coordinate Job Training Section visits, Special Programs Division audits, and DCCA field monitoring. The Agency agrees with the recommendation to follow existing procedures for monitoring Drug-Free Schools and Communities Act grants and that monitoring reports should identify the amounts of unallowable expenditures so the Agency may take appropriate corrective action. With respect to grants for the Federal, State and Local Partnership for Education Improvement Act and the Early Intervention Program for Infants and Toddlers with Disabilities, Agency officials stated they agreed with the recommendation to adequately document monitoring activities performed on grant funds.

EXCESS CASH NOT RETURNED TO STATE BOARD OF EDUCATION

The Agency continued to award Carl D. Perkins Vocational Education Act Funds to a contractor when the contractor already had accumulated cash balances in excess of \$500,000.

The Agency began supporting a clearinghouse in 1976 to print and disseminate publications needed by schools. The clearinghouse was funded by grants from the Agency and funds generated from the sale of materials (generated account). At the beginning of fiscal years 1993 and 1994, the cash balance in the generated account was in excess of \$500,000.

Federal regulations (OMB Circular A-102 Subpart c, Section 25) define program income ("generated account") as "...gross income received by the grantee or subgrantee directly generated by a grant supported activity". Section 25 further stipulates uses of program income which would either include deducting program income from total allowable costs or adding program income to funds committed to the grant agreement for the purposes and conditions of the grant agreement. In either case, excess program income should have offset federal grants awarded by the Agency.

We recommended that the remaining excess "generated account" cash on hand at June 30, 1994 be returned to the Agency. Further, future excess generated fund balances should be closely monitored and applied against funds awarded to the clearinghouse. (Finding No. 41, pages 176 and 177)

Agency officials state they agree with the recommendation and that corrective action will be implemented over FY95 and FY96. The Department of Education has been consulted as well.

PAYMENT OF "BONUS" TO EMPLOYEE

The Illinois Council on Vocational Education (ICOVE) paid a "one time bonus" totalling \$11,220 to an employee on a June 30, 1993 payroll voucher. The State Board of Education acts as fiscal agent for ICOVE.

This "one time bonus", however, may have in fact been part of a negotiated agreement for future conduct rather than additional compensation for work already performed.

Additional payment for work already compensated for is not allowed under Section 9 of the State Finance Act (30 ILCS 105/9(c)). In form, this payment was a "bonus" which is, in our opinion, prohibited by the State Finance Act. In substance, the payment appears to be part of a negotiated contractual agreement for future conduct which would be an act of retirement on or before a specified date (2/28/94). Therefore, the payment might be permissible under the State Finance Act under the proviso that it is not payment for work already performed, but part of a negotiated contractual agreement between ICOVE and the employee for future conduct which is retirement. It is appropriate to note that the actions taken by ICOVE do appear to reflect fiscal prudence. However, it is uncertain as to whether the spirit of the State Finance Act was complied with in this instance.

We recommended that the ICOVE comply with the State Finance Act for all future payments to employees. (Finding No. 42, pages 178 - 180)

Agency officials stated that ICOVE is a separate legal entity for which the State Board of Education serves as fiscal agent. This particular item was noted, reviewed by the Agency's legal department, and not found to be illegal. Therefore, the Agency has no authority to deny payment of the request. The finding will be forwarded to ICOVE for further consideration.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider whether they intended that the State Finance Act (30 ILCS 105/9 (c)) permit actions like or similar to those taken above. Further, such considerations might warrant some type of amendatory language which would further express the General Assembly intent.

OTHER FINDINGS

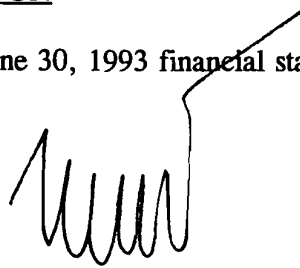
The remaining findings and recommendations are less significant and are being given appropriate attention by the Agency. We will review progress toward implementing the recommendations during the Agency's next audit.

Ms. Tammy Rust, Internal Auditor, furnished the Agency's responses to our findings and

recommendations.

AUDITORS' OPINION

Our auditors state that the June 30, 1994 and June 30, 1993 financial statements of the Agency are fairly presented.



WILLIAM G. HOLLAND, Auditor General

WGH:BLB:pp

April 27, 1995

SUMMARY OF AUDIT FINDINGS

| <u>Number of</u> | <u>This Audit</u> | <u>Prior Audit</u> |
|---|-------------------|--------------------|
| Findings | 31 | 21 |
| Repeated Findings | 8 | 11 |
| Prior Findings Implemented or not Repeated | 13 | 20 |

SPECIAL ASSISTANT AUDITORS

Sikich, Gardner & Co, LLP were our special assistant auditors for this audit.

DIGEST FOOTNOTES

#1: UNTIMELY RESOLUTION OF LOCAL EDUCATION AGENCY AUDIT FINDINGS - Previous Agency Responses.

- 1992: "The Agency will continue its efforts to fully implement this recommendation."
- 1990: "The Agency accepts the recommendation and will amend current procedures to accelerate timely reporting of deficiencies."
- 1988: "The letters of August, 1988, referred to in the finding were follow-up notices to those districts which had, up to that date, not responded to second and third notices of deficiencies in need of corrections. The Agency will continue to work to improve review timeliness."
- 1986: "The Schedules of Federal Financial Assistance described in this finding were only a portion of the audit schedules reviewed for 1984 and 1985. Other schedules were reviewed on a timely basis for each of the years noted. The additional inquiry necessary with respect to these audits occurred in part because the independent auditors for the school districts did not identify the source of certain Vocational Education program funds. Review of these schedules for 1986 is proceeding and will be completed in a timely manner."

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

REPORT DIGEST

594-60800-10

**EASTERN ILLINOIS UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEARS ENDED JUNE 30, 1994**

SYNOPSIS

- The University lacked adequate documentation to support its allocation of expenditures between State-appropriated funds and revenue bond funds. This finding has been repeated since 1991.
 - State-appropriated funds paid all \$122,300 in fire protection costs for the University. If building square footage calculations had been used as a basis for allocating the costs, then \$61,101 would have been charged to the revenue bond funds.
 - The University could not justify its allocation of business office expenses charged to State-appropriated funds. In Fiscal Year 1994, \$515,767 in business office payroll costs were paid from State appropriations. This represented a 36 percent increase in actual State appropriated expenditures in two years. It was not possible to determine the extent to which State-appropriated funds may have subsidized the revenue bonds for business office costs.
- The University's federally-funded Peacemeal Program lacked the required annual safety and health inspections for its food service sites. Out of 52 food service sites, 16 had no safety inspections on file, twelve had no health inspections on file, and twelve had health inspections which were over two-years old.

{Expenditures and Activity Measures are summarized on the reverse page.}

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