

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, 1996

Summary of Findings:

Total this audit	45
Total last audit	31
Repeated from last audit	12

Release Date:
March 12, 1997



State of Illinois
Office of the Auditor General

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SYNOPSIS

The audit contains a total of 45 findings, of which 12 are repeated from the previous audit. Findings include:

- ◆ **Inadequate accounting records to support allocation of costs charged to federal programs.** Federal regulations require the Agency to maintain a cost allocation plan to support charges to federal grant programs. Total administrative costs claimed in FY95 and FY96 were approximately \$24 million per year. Due to numerous errors in record-keeping, including missing timesheets and attendance discrepancies, activity report irregularities, and errors in reporting leave time, significant uncertainty exists as to the amount of unallowable costs that could be due to the federal government through over claims or disallowance. *This matter is emphasized in the auditors' report on the agency's financial statements.*
- ◆ **Inadequate procedures and controls over personnel processes,** including:
 - ◆ Payments to departing staff based on projected, rather than actual, timesheets resulting in both overpayments and underpayments;
 - ◆ Overpayments to employees on leave of absence;
 - ◆ Payment of severance not consistent with State Finance Act; and
 - ◆ No positive effort made to verify and record attendance.
- ◆ **Inadequate controls over the contracting process,** including:
 - ◆ Inadequate documentation of consultant time worked, travel and expenses;
 - ◆ Inadequate information to determine deliverables, time of delivery, people served, travel rates and breakdowns of amounts to be paid;
 - ◆ Rendering of contract services prior to execution of a written contract; and
 - ◆ Lack of documentation and justification for indirect cost rates approved in contracts awarded to private organizations.
- ◆ **Inadequate procedures for addressing potential conflicts of interest,** including:
 - ◆ Solicitation of Agency vendors for contributions to a staff picnic;
 - ◆ Maintaining on contract the Executive Director of an organization which receives grant moneys from the Agency; and
 - ◆ Contracting with a law firm, whose clients include school districts that have sued the Agency, to perform collective bargaining negotiations.
- ◆ **Deficiencies in controls over State Superintendent's travel, headquarters and wage reporting,** including:
 - ◆ Payment of lodging costs in excess of maximum allowable rates;
 - ◆ Payment of both meals and per diem;
 - ◆ Inadequate documentation of beginning and ending times for determining travel status;
 - ◆ Designation of Superintendent's headquarters as Springfield, although he spent 264 nights out of 366 in Chicago; and
 - ◆ Failure to withhold federal and State taxes on payments totaling \$15,000 to the Superintendent for an apartment in Chicago.
- ◆ **Inadequate controls over employees' travel,** such as:
 - ◆ Payment of excessive or unallowable meal, lodging, per diem and mileage costs; and
 - ◆ Failure to file employee headquarters reports with Legislative Audit Commission, or late or incomplete filings.
- ◆ **Monitoring of federal grant funds not properly documented.** Federal regulations require the Agency to monitor grant and subgrant supported activities. Agency officials indicated that monitoring activities were performed but there is not documentation of these activities in most cases. Failure to verify compliance with federal regulations could affect future federal funding.

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



**STATE BOARD OF EDUCATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1996**

APPROPRIATION ANALYSIS	FY 1996	FY 1995
Final Appropriations.....	\$4,686,053,244	\$4,741,981,370
Expenditures		
Administrative.....	\$ 71,718,605	\$ 61,921,219
Distributive.....	<u>4,417,062,248</u>	<u>4,469,248,773</u>
Total Expenditures.....	<u>\$4,488,780,853</u>	<u>\$4,531,169,992</u>
Lapsed Balances.....	\$ 197,272,391	\$ 210,811,378
ADMINISTRATIVE EXPENDITURES	FY 1996	FY 1995
Personal Services.....	\$39,911,099	\$38,625,008
Contractual Services.....	21,319,234	15,826,215
Travel.....	2,213,813	1,899,103
Commodities.....	389,858	310,761
Printing.....	564,701	470,750
Equipment.....	4,695,427	1,749,920
Telecommunications.....	1,344,025	1,989,787
Operation of Auto. Equipment.....	12,565	18,374
Interfund cash transfer.....	15,588	30,106
Interest penalty general State-aid.....	<u>1,252,295</u>	<u>1,001,195</u>
Total appropriated administrative expenditures.....	<u>\$71,718,605</u>	<u>\$61,921,219</u>

SELECTED SUPPLEMENTARY INFORMATION	FY 1996	FY 1995
Average Number of Employees.....	759	753
Property and Equipment, at cost.....	\$13,902,666	\$9,388,779
Total Accounts Receivable.....	\$97,683,000	\$97,119,000
Liability for accrued vested vacation and sick pay.....	\$7,960,000	\$6,885,000
Cash receipts		
State Operating Funds.....	\$1,461,660	\$1,519,618
Special State Funds.....	676,652	1,582,016
State Trust Funds.....	268,512	1,000
Federal Trust Funds.....	<u>838,211,630</u>	<u>806,158,614</u>
Total Cash Receipts.....	<u>\$840,618,454</u>	<u>\$809,261,248</u>

STATE SUPERINTENDENT OF EDUCATION	
During Audit Period:	Joseph Spagnolo
Currently:	Joseph Spagnolo

INTRODUCTION

Our independent auditors' reports on federal compliance testing and on internal control structure related to federal financial assistance noted the Agency's accounting records were inadequate to support allocation of costs charged to federal programs. No adjustments were included in the Board's financial statements for the possible loss of federal funds due to this failure to comply with federal regulations. The regulations require agencies to maintain a cost allocation plan that will support the distribution of any joint costs related to a grant program. The U.S. Department of Education will make the final determination on this matter. (See Finding No. 96-40, page 79)

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ALLOCATION OF COSTS TO FEDERAL PROGRAMS

Noncompliance with federal regulations

Administrative costs claimed for federal programs based on estimates

INADEQUATE ACCOUNTING RECORDS TO SUPPORT ALLOCATION OF COSTS CHARGED TO FEDERAL PROGRAMS

The State Board of Education did not properly support the allocation of administrative costs to federal programs as required by federal regulations. A plan for the allocation of costs must be implemented by the Agency and this plan must be supported by actual accounting records.

Agency personnel generally maintain activity reports which account for their time by quarter day for all Agency programs, both federal and State. In previous years, the Agency posted these activity reports to their cost allocation system which accumulated the actual time by program. At the end of the year, expenditure reports were adjusted to reflect actual time and related costs charged to the program for the year.

During fiscal years 1995 and 1996, the Agency did not post these activity reports to their cost allocation system. As a result, total administrative costs claimed for all federal programs (approximately \$24 million per year) were based on budget estimates, not actual costs. At our request, the Agency attempted to post the fiscal year 1995 and 1996

**Errors noted in posting
activity reports to system**

activity reports to the cost allocation system to demonstrate that actual costs exceeded estimated costs reported for federal programs. Our auditors performed audit procedures to test the cost allocation system by tracing a sample of 60 employees through the system. Our auditors noted the following:

- ◆ 21% of the employees tested were missing timesheets from their file.
- ◆ One instance was noted in which an employee was instructed to complete a year of time activity reports in order for the Agency to satisfy audit objectives. These were created based on her recollection of her duties the previous year.
- ◆ There were several instances of activity report irregularities. In two cases, employees had two conflicting activity reports in their file for the same pay period. In both cases, the two signed activity reports allocating time to different programs for the same period.
- ◆ There were numerous instances where total quarter days for specific employees did not total 1,044 quarter days (the total time worked in a year based on 261 work days). The totals were far less than 1,044 quarters, indicating additional time records were missing. One employee had over 1,100 quarter days, which management stated should not be possible on this system.
- ◆ 81% of employees tested had errors between their time distribution worksheets and the time posted for them to the cost allocation accounting system.
- ◆ Two integral summary reports used to prepare the cost allocation plan did not agree, even though they were run from the same system. The reports did not indicate the same number of hours worked by employee by program.
- ◆ In every instance in which our auditors tested the number of sick, vacation, holiday and personal days reported for the year, the total on the timesheets did not agree to the

totals on the cost allocation records.

**Cost allocation system
unreliable**

Based on the above problems and numerous other errors noted, our auditors could place no reliance on the Agency's cost allocation system used to accumulate actual payroll costs by program.

**Uncertainty as to amount of
unallowable costs that could
be due to federal government**

It is obvious that individuals did work on federal programs throughout fiscal year 1995 and 1996, and in all likelihood if the Agency would expend the time and effort to properly recreate their federal cost allocation system, a significant amount of the administrative costs reported to the federal government could be justified. However, as a result of the significance of the noncompliance with the standards required by OMB Circular A-87 and the fact that they could place no reliance on the Agency's cost allocation system, our auditors could not state with any assurance that administrative costs were properly reported to the federal government. In addition, significant uncertainty exists as to the amount of unallowable costs that could be due to the federal government through over claims or disallowance. This matter has been emphasized in the Independent Auditor's Report on the financial statements of the Illinois State Board of Education. (Finding No. 96-40, page 79)

We recommend the Agency take immediate action to post their cost allocation records on a quarterly basis, and adjust estimated costs to actual costs quarterly as required by federal regulations.

Agency management agreed to the importance and necessity of the Cost Allocation system. They also stated they will contact the Department of Education to seek advice and assistance in resolving this matter.

**INADEQUATE PROCEDURES OVER ATTENDANCE
RECORDS**

PERSONNEL PROCESSES

The State Board of Education did not follow appropriate procedures for calculating, reviewing and approving terminated employees' final pay.

Testing of 60 terminated employees' timesheets resulted in the following:

Final paychecks based on projected timesheets

- ◆ 10 of the 60 timesheets revealed that final termination pay was based on the “projected” and ~~not the final~~ “actual” timesheet. This resulted in over payments to employees totaling \$1,600 and underpayments to employees totaling \$240.
- ◆ 21 “final” timesheets could not be located. It appears final pay was based on projections. No reconciliation was performed of the final timesheet to the final payroll warrant.
- ◆ 3 employees had no timesheets. There was no documentation to support that these individuals worked. These individuals were paid a total of \$5,025.

We recommend the Agency comply with existing procedures for the calculation, review and approval of terminated employees’ final pay. (Finding No. 96-29, page 64)

The Agency agreed and stated timekeeping issues were addressed during a recent inservice for timekeepers.

INADEQUATE CONTROLS OVER LEAVES OF ABSENCES

The State Board of Education did not follow appropriate procedure for approving leaves of absences and removing employees on leave of absence from the State payroll.

We tested a sample of 30 leave of absence requests processed during fiscal years 1995 and 1996. We noted the following problems during our review:

Leave requests initiated late and not timely approved

- ◆ 17 of the 30 (57%) leave of absence requests received final approval after the leave of absence period began. Several of the final approvals were made nearly two months after the leave of absence period began.
- ◆ 11 of the 30 (37%) leave of absence requests were initiated after the leave of absence began.
- ◆ 10 of the 30 (33%) employees on leave of absence were overpaid for the pay period in which they initiated

Overpayments to employees on leave

their leave of absence. Three of these overpayments totaling \$3,220 had not been reimbursed to the Agency.

- ◆ 13 of the 30 (43%) employees on leave of absence were erroneously paid for pay periods subsequent to the period in which their leave of absence began. Two of these overpayments totaling \$2,729 had not been reimbursed to the Agency.
- ◆ 11 of 30 (33%) Personnel Action Reports (PARs) were missing employee or supervisor signatures. PARs are completed to notify Human Resources and Payroll of a change in an employee's employment status.

It appears that the proper procedures for leave of absence requests have not been adequately communicated to all employees within the Agency. Further, it appears there is a breakdown in communication between the Payroll section which is responsible for taking the employee off of payroll and the Human Resources section which is responsible for processing the leave request.

Due to the untimely processing of the leave of absence requests, the Agency created additional work in having to prepare salary reversals and in some cases recover overpayments from employees. Overpayments not yet recovered total \$5,949. (Finding No. 96-30, page 66)

The Agency agreed to implement the recommendation and said overpayments will be resolved.

PAYMENT OF "SEVERANCE PAY" TO AN EMPLOYEE

We noted an Agency employee was terminated and placed on a forty day "administrative leave" and paid "severance pay" totaling \$11,877 plus benefits. The employee continued to be paid on the Agency's payroll during this forty day period. However, employee time records and other correspondence indicated the employee did not, nor was expected to, work during this forty day period.

Additional payment for work already compensated

Pay during administrative leave questioned

for is not allowed under Section 9 of the State Finance Act [30 ILCS 105/9(c)]

The State Finance Act (30 ILCS 105/9.03) also requires that every State payroll voucher contain the following certification, "I certify that the employees named, their respective indicated position and service times, and appropriation to be charged, as shown on the accompanying payroll sheets are true, complete, correct and according to provisions of law;... that all working time was expended in the service of the State; and that the employees named are entitled to payment in the amounts indicated."

State Finance Act and Agency rules not complied with

The Illinois State Board of Education Personnel Policies and Procedures (Effective July 1, 1978, revised July 1, 1981) do not provide for administrative leave, nor did we note a precedent of any other employee being paid such leave. Agency personnel indicated the employee was terminated due to the Agency's reorganization and the additional compensation was to allow the employee to transition to another job. However, such additional payments are not allowable under the State Finance Act. (Finding No. 96-15, page 47)

INTERNAL CONTROL WEAKNESSES IN THE EMPLOYEE ATTENDANCE REPORTING SYSTEM

The State Board of Education does not use a "positive" timekeeping system to verify and track employee attendance.

The new HMRS used by the Agency to track the attendance of employees follows an "exception" attendance rule. This basically means that unless otherwise directed, the system will mark an employee present. A timekeeper must access the system and enter all exceptions to this rule.

No positive effort made to verify and record attendance

Good internal control procedures dictate that procedures exist to verify that all employees are present. With an "exception" system, no positive effort must be made to verify and record attendance. Rather, attendance is assumed. Without a positive effort, the likelihood of properly recording employee time off due to sickness, vacation, or other absence decreases. This could result in reimbursing employees for time not worked. The prevalence of errors in

properly reporting time for terminated employees and employees on leave of absence noted in findings 29 and 30 indicates the need for strong internal control over timekeeping and a “positive” time reporting system. (Finding No. 96-26, page 60)

Agency management indicated they believed the current system provides adequate internal controls.

CONTRACTING PROCEDURES

INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES

The State Board of Education’s controls over contracting procedures and contract administration were inadequate.

During a review of forty-four (44) specific contracts, numerous instances of non-compliance with State as well as internal contracting procedures were noted. The major exceptions included the following:

- ◆ Numerous exceptions were noted where documentation of consultant time worked, travel and expenses was incomplete.
- ◆ Information on the contract was inadequate to determine the exact deliverables, the time of delivery, the people served, travel rates and breakdowns of amounts to be paid for thirty-nine (39) contracts reviewed. As a result, it was difficult to determine if the contract price was reasonable for the services delivered.

Lack of documentation of time worked, travel and expenses

Contract information inadequate to determine if price reasonable

The pervasiveness of these exceptions indicates a breakdown in controls over contracting procedures. (Finding No. 96-1, page 27)

We recommend the Agency strengthen controls over contract initiation, preparation, approval, monitoring and documentation. We further recommend that all personnel performing such functions be trained in contract administration to prevent such exceptions from reoccurring in future fiscal years.

The Agency agreed to implement our

recommendation. They also said they will implement an oversight program.

CONTRACTORS ALLOWED TO INITIATE SERVICES PRIOR TO AGENCY APPROVAL OF CONTRACT

The State Board of Education allowed contractors to perform services for the Agency prior to Agency approval of the contract.

Contractor provides services before contract written or approved in over half of contracts sampled

Our auditors tested a sample of 60 ~~contracts and~~ noted that for 33 contracts (55%), the contractor initiated services prior to formal Agency approval of the contract. It was also noted during a review of 44 additional specific contracts, contractual services were rendered in 26 instances (59%) prior to the execution of a signed, written contract.

Allowing contractors to begin services prior to management approval could lead to misunderstandings by both parties and to the misuse of public funds.

Agency personnel indicated contracts were not approved on a timely basis due to the conversion to a new computerized accounting system, as well as the Agency's reorganization. (Finding No. 96-4, page 33)

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.

Indirect costs allowed contractors varied from 5 - 33% without justification

Some contracts examined allowed for no indirect costs while others ranged from 5% to 33.5% 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 33.5% 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. 96-21, page 53)

Agency officials stated they agreed with the recommendation.

INADEQUATE CONFLICT OF INTEREST PROCEDURES

IMPROPER SOLICITATION OF PRIZES FROM VENDORS FOR EMPLOYEE PICNIC

Members of the Illinois State Board of Education's picnic committee solicited prizes from vendors in violation of the Board's conflict of interest policy.

Agency vendors asked to give prizes for employee picnic

In conjunction with the Board's 1996 annual picnic for employees and their families, employees on the picnic committee solicited approximately 725 businesses for awards and prizes. Many of these vendors do business with the Illinois State Board of Education. These solicitations were made using State Board stationary, envelopes, and postage. (Finding No. 96-6, page 35)

We recommend that State Board management discontinue the practice of allowing State Board employees to solicit donations from both current and potential vendors.

The Agency agreed and stated all staff would be informed of this limitation.

POTENTIAL CONFLICT OF INTEREST WITH GRANT RECIPIENT

Director of organization receiving \$4.3 million in grants under contract with agency

The State Board contracted with an organization for the services of the organization's executive director from November 1, 1994 to June 30, 1996. The contracts, totaling \$96,770, reimbursed the organization for 50% of the executive director's time to serve as special advisor to the State Superintendent to help build school/business liaisons with the corporate community. The terms of the contracts were vague and did not provide for a final end product or documentation of time spent on the contract.

While the executive director served in the capacity as special advisor, the organization received State and federal funding from the State Board of over \$3.7 million in fiscal

year 1995 and \$4.3 million in fiscal year 1996.

The contractual arrangement places the executive director in a potential position to influence the award of grants to his organization. The State Board has no written policies or procedures addressing this type of situation. (Finding No. 96-5, page 34)

We recommend the State Board thoroughly document all future arrangements of this type through very specific contract terms and deliverables to avoid any appearance of impropriety. We also recommend the State board adopt specific policies and procedures to address the documentation, review and approval of all such future arrangements.

The Agency agreed and said a Code of Conduct will be developed to guide decisions of this nature.

INADEQUATE PROCEDURES FOR OBTAINING PRIVATE LEGAL SERVICES

The State Board of Education did not follow appropriate procedures for acquiring legal services from a private firm.

The Agency entered into two separate contracts with a private law firm in fiscal year 1996 to review the legislative budget process and to provide collective bargaining negotiation services, for \$17,420 and \$54,145, respectively.

Among other things, our auditors' review of these contracts noted that the private law firm disclosed a list of potentially conflicting clients for their engagement to perform collective bargaining negotiations and requested a release from the State Superintendent of Education. Many of these clients were school districts which in the past have been party to lawsuits with the Agency. Although no clear evidence of an actual conflict was noted, there were no procedures to ensure such potential conflicts were considered and reviewed by the State Board legal counsel to avoid any actual or perceived impropriety.

Agency personnel indicated the Superintendent assessed and waived the potential conflict of interest.

List of potential conflicts submitted

**Potential conflict of interest
waived**

Good business practices dictate that potential conflicts of interest be formally addressed and documented. (Finding No. 96-2, page 29)

The Agency agreed and referred to their plans to develop a Code of Conduct.

**DEFICIENCIES IN STATE SUPERINTENDENT'S
TRAVEL VOUCHERS**

**STATE
SUPERINTENDENT'S
TRAVEL,
HEADQUARTERS AND
WAGE REPORTING**

There were a number of deficiencies in the preparation and submission of the State Superintendent of Education's travel vouchers or expenses. The deficiencies were as follows:

Travel vouchers not signed

◆ Signature - the travel vouchers were not signed by the Superintendent. The signature is a certification required by statute (30 ILCS 105/12). The Superintendent authorized various individuals to affix his signature by use of an auto-pen.

◆ Time of departure and arrival - the date and hour of departure and arrival at the place at which official travel begins and ends was not shown on all travel vouchers when such arrival or departure affects the allowance or other travel expenses.

**Noncompliance with travel
regulations**

◆ Per Diem/Meals - meal charges were sometimes improperly mixed on the same day or trip with per diem.

◆ Lodging charges - in excess of the maximum allowable rates were charged without any indication that the vouchers were filed as exceptions with the State Board of Education's Travel Control Board.

The Superintendent's travel vouchers were prepared and submitted by individuals who may not have had sufficient information to complete the vouchers in accordance with the applicable travel regulations. (Finding No. 96-8, page 38)

We recommend the State Superintendent of Education personally review his travel vouchers to make

certain the charges are in accordance with the applicable travel regulations. We further recommend that he personally sign his vouchers in accordance with the State Finance Act.

The Agency agreed to implement the recommendation and reported the Superintendent is reviewing and signing his travel vouchers.

STATE SUPERINTENDENT'S HEADQUARTERS ASSIGNMENT INEFFICIENT

Headquarters designated as Springfield in employment agreement

The assignment of the State Superintendent of Education to a headquarters of Springfield ~~did not promote~~ the efficient and economical conduct of his official duties during the two years ended June 30, 1996.

Majority of State Superintendent's time spent in Chicago

According to his fiscal year 1996 travel vouchers, the Superintendent spent 264 nights out of 366 for the entire year in Chicago. He spent only 59 nights in Springfield and 43 nights in other places. Meals and per diem charges for the fiscal year amounted to \$5,434. Most of this would not be reimbursable with a Chicago headquarters assignment. Cab/limo fares amounted to over \$1,700 for the fiscal year and apparently were frequently incurred to get to work in the morning and return home in the evening while in Chicago. With a Chicago headquarters this would be considered commuting and not reimbursable.

Headquarters is generally place where employee spends most working time

Generally, the official headquarters of an individual is the place where official duties will require that person to spend the most working time during the coming fiscal year. Section 12-3 of the State Finance Act (30 ILCS 105/12-3) requires agencies to file reports with the Legislative Audit Commission of individuals assigned headquarters other than that at which official duties require the largest part of working time. The State Board of Education filed only one of the required reports during the audit period (see Finding No. 27) and the reason given for the Superintendent's headquarters assignment was listed as "Per Employment Agreement". (Finding No. 96-9, page 40)

We recommend the State Board of Education consider assigning the State Superintendent to a headquarters of Chicago or a location which will promote the efficient and economical conduct of his duties.

The Agency stated this matter will be reviewed by the Board once it is fully constituted.

**INADEQUATE REPORTING OF WAGES,
WITHHOLDING AND PAYROLL TAXES TO THE
INTERNAL REVENUE SERVICE**

The State Board of Education did not pay their share of employer (Social Security and Medicare) taxes nor did they meet their obligation to withhold federal and State taxes on payments totaling \$15,000 to the State Superintendent for an apartment in the Chicago area.

**\$15,000 reimbursement for
Chicago apartment not
included in gross wages**

The employment agreement between the Agency and the Superintendent for the period July 1, 1995 through June 30, 1998 agreed to reimburse the Superintendent \$1,250 per month (a total of \$15,000 during fiscal year 1996) to maintain an apartment in Chicago. The agreement further stated the cost of the apartment shall be deemed reimbursements as that term is used in Reg. 31.3401(a)-4 of the Internal Revenue Code (the "Code") and that the agreement shall constitute an "accountable plan" as determined in Reg. 1.62-2 of the Code. In accordance with the provisions of an "accountable plan", the payments totaling \$15,000 were not included in the Superintendent's gross wages, were not reported on his Form W-2, and were not subject to withholding and payment of employment taxes.

**Compliance with tax
exemption provisions
questioned**

Reg. 1.62-2(e) of the Internal Revenue Code requires all expenses under an accountable plan to be substantiated to the employer within a reasonable period of time. Adequate substantiation of these expenses was not provided. In addition, Reg. 1.62-2(f) requires that the Superintendent should return all amounts in excess of the expenses substantiated to the Agency. The employment agreement specifically allows for any excess to be treated as wages to the Superintendent. The terms of the employment agreement are contrary to Reg. 1.62-2(f).

Additional taxes may be due

As a result, the Agency did not meet their withholding obligation and did not pay their share of Social Security and Medicare taxes totaling \$1,148 (7.65% of gross wages). (Finding No. 96-7, page 36)

We recommend the Agency amend their Internal Revenue Service tax reporting documents to properly reflect these payments as gross wages, and pay all applicable employer payroll taxes.

The Agency responded that they are seeking tax advice and will proceed accordingly.

EXCESSIVE MEAL COSTS

EMPLOYEES' TRAVEL

During our review of State Board of Education contracts, we noted several payments for conference meals that exceed State guidelines. Examples of specific payments noted were as follows:

Cost of meals exceed maximums permitted under travel rules

<u>Location</u>	<u>Number of Meals</u>	<u>Total Cost</u>	<u>Cost Per Meal</u>	<u>Meal</u>
California	21	\$432.09	\$20.58	Lunch
California	7	\$188.75	\$26.96	Dinner
Oakbrook	20	\$280.00	\$14.00	Breakfast
Oakbrook	20	\$590.00	\$29.50	Dinner

Documentation was not always available to determine if meals were for employees, consultants or other attendees.

The Illinois State Board of Education Travel Rules provides for meals to be reimbursed to employees as follows (effective July 1, 1995):

	<u>In State</u>	<u>Out of State</u>
Breakfast	\$ 5.50	\$ 6.50
Lunch	5.50	6.50
Dinner	17.00	19.00

Although these rates apply only to reimbursements to employees, and the rules state that meals billed separately at approved seminars and official meetings may be reimbursed in full, these are reasonable guidelines for the cost of meals. Meals paid by contract are excessive in relation to established meal reimbursement guidelines. (Finding No. 96-3, page 31)

Agency personnel indicated meals are at conference sites and are an integral part of the conference.

TRAVEL EXCEPTIONS NOT APPROVED BY THE TRAVEL CONTROL BOARD

The Agency reimbursed employees for lodging at rates in excess of those allowed by the Employee Travel Rules without documented approval by the Agency's Travel Control Board.

The Illinois State Board of Education Employees Travel Rules state that their Travel Control Board will review any travel vouchers submitted to them which include exceptions to the Rules. The Travel Control Board documents their approval of exceptions in the minutes of their meetings.

We noted 4 instances where employees were reimbursed for lodging at rates in excess of those allowed by the Employee Travel Rules. In 3 of these 4 instances, the Travel Control Board did not act to approve or disapprove these exceptions. As a result, employees were reimbursed at rates in excess of those allowed by the Rules. _____

Approval of lodging rates in excess of travel rules not documented

Agency personnel indicated it was their policy to have all exceptions approved by the Travel Control Board. Agency personnel could not explain why these exceptions were not documented in the minutes. As a result, employees were reimbursed for travel at rates in excess of those allowed by the Travel Rules. (Finding No. 96-12, page 44)

Agency management said the lodging costs were paid by direct bill. They have prohibited such direct billing arrangements in the future.

NONCOMPLIANCE WITH TRAVEL RULES

During our review of employee travel vouchers, we noted reimbursements for mileage or per diem which were not in compliance with the Illinois State Board of Education Travel Rules.

We noted 8 of 50 vouchers tested (16%) in which employees charged excessive mileage. On six of these vouchers, the travelers did not deduct their normal commuting mileage from the mileage traveled. On two vouchers, the travelers claimed more mileage than allowed when traveling between cities. Section 2.110 of the Travel Rules states, "Expenses associated with commuting between

Excessive mileage and per diem paid in some instances

an employee's residence and headquarters are ~~not~~ reimbursable." Section 3.110 states, "Distances between destinations shall be as shown on the Illinois Highway Map published by the Secretary of State." These exceptions resulted in overpayments to employees totaling \$128.

We also noted three travelers who were reimbursed at a per diem rate in excess of that allowed by the Travel Rules. These overpayments totaled \$54. (Finding No. 96-13, page 45)

Agency personnel indicated there are review procedures in place, and that they believe most items are not exceptions and they consider the remaining items to be immaterial.

FAILURE TO FILE TA-2 FORMS WITH THE LEGISLATIVE AUDIT COMMISSION

The State Board of Education failed to submit all Travel Headquarter Reports (TA-2 forms) for fiscal years 1995 and 1996 with the Legislative Audit Commission as required by statute, or filed late or incomplete reports.

Headquarters reports filed late or not filed

The previous audit noted that such reports had not been filed with the Legislative Audit Commission since December, 1991. During the current audit, we noted the following:

<u>Report Due Date</u>	<u>Date Filed</u>
December 1, 1994	Not filed
June 1, 1995	Not filed
December 1, 1995	December 22, 1995
July 15, 1996	September 3, 1996

TA-2 forms are required by statute to be filed by all officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

We also noted one Agency employee has field assignments, but was not included on the TA-2 Form. Agency personnel indicated this error occurred due to a lack

of formal procedures for accumulating data to ensure an accurate report. (Finding No. 96-10, page 41)

The Agency stated all required reports have been filed.

MONITORING OF FEDERAL GRANTS NOT PROPERLY DOCUMENTED

MONITORING OF FEDERAL GRANTS

The Agency failed to adequately document the monitoring of certain federal grant funds. Federal regulations (34 CFR 80.40(a)) state that the Agency "...must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity."

Agency officials indicated that monitoring activities were performed but there is not documentation of these activities in most cases. The lack of documentation is due to inadequate training of program staff.

Monitoring required by federal regulations not documented

By failing to adequately document monitoring of grant funds, the Agency cannot verify compliance with federal regulations and cannot ensure that grant funds are properly expended and may affect future federal funding. (Finding No. 96-43, page 87)

The Agency said Internal Audit will work to develop a "model" for documenting monitoring practices.

OTHER FINDINGS

The extent of noncompliance noted in the auditors' testing indicates that, with respect to items not tested by them, there is **more than a relatively low risk that the Agency may not have complied with other applicable requirements.** 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, 1996 financial statements of the Agency are fairly presented, however they noted the **accounting records were inadequate to support allocation of costs charged to federal programs**. No adjustment was included for the possible loss of federal funds due to the Agency's failure to comply with federal regulations, pending the U.S. Department of Education's review.

WILLIAM G. HOLLAND, Auditor General

WGH:TEE:pp

SPECIAL ASSISTANT AUDITORS

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

