



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
New York/Dallas Region

November 7, 2016

Control Number
ED-OIG/A02P0008

Dr. Tony Smith
State Superintendent of Education
Illinois State Board of Education
100 North 1st Street
Springfield, IL 62777

Dear Dr. Smith:

This final audit report, “Illinois State Board of Education’s Oversight of Local Educational Agency Single Audit Resolution,” presents the results of our audit. The purpose of the audit was to determine whether the Illinois State Board of Education (ISBE) provided effective oversight to ensure that local educational agencies (LEAs) took timely and appropriate action to correct single audit findings. Our review covered ISBE’s processes and activities related to the resolution of LEA single audit findings that occurred in fiscal years (FYs) 2011 through 2014.¹ In this report, we use the term “audit resolution” to refer to all activities required to ensure that LEA single audit findings are fully and appropriately corrected. The specific requirements of the audit resolution process are described in the Background section of this report.

BACKGROUND

The Single Audit Act of 1984 established uniform audit requirements for State and local governments (recipients and subrecipients)² that receive Federal financial assistance. Many of these recipients receive annual grant awards from multiple Federal agencies. Before the Single Audit Act, the grant-by-grant audit processes of Federal agencies were not coordinated. This resulted in overlapping audits in some cases, which increased costs to the Federal government and placed an undue administrative burden on recipients. In other cases, recipients were not subject to any grant audits for multiple fiscal years.

In 1985, the Office of Management and Budget (OMB) issued Circular A-128 to provide implementing guidance for the Single Audit Act. In 1990, OMB issued Circular A-133 to extend the single audit process to nonprofit organizations. Then, in 1997, OMB revised Circular A-133 pursuant to Single Audit Act Amendments of 1996 to extend Circular A-133’s coverage to audits of State and local governments and rescind Circular A-128. For fiscal years ending after December 31, 2003, recipients that spent \$500,000 or more in Federal awards during a fiscal

¹ Illinois LEAs operate on a fiscal year that begins on July 1 and ends on June 30.

² In the remainder of this report, the term “recipient” is inclusive of subrecipients unless otherwise noted.

year were required to have a single audit or program-specific audit conducted in accordance with Circular A-133.

In December 2013, OMB published final regulations in Title 2 of the Code of Federal Regulations (Uniform Grant Guidance), which consolidated and superseded requirements from eight Circulars, including A-133. Part 200 of the Uniform Grant Guidance streamlined the administrative requirements, cost principles, and audit requirements for Federal awards and increased the single audit expenditure threshold from \$500,000 to \$750,000. Uniform Grant Guidance requirements became effective for recipients' fiscal years beginning on or after December 26, 2014.

As pass-through entities, State educational agencies (SEAs) are responsible for distributing U.S. Department of Education (Department) grant funds to subrecipients. Circular A-133 specifies the responsibilities of pass-through entities related to the administration of Federal awards.³ In their oversight role, SEAs are responsible for advising LEAs of the requirements associated with the use of Federal funds; monitoring LEAs' use of Federal funds to ensure they comply with laws, regulations, and grant agreements; and ensuring that LEAs achieve program goals. SEAs must also ensure that all LEAs that meet the expenditure threshold for a given fiscal year have a single audit performed.

As part of the single audit resolution process, the SEA must issue a management decision⁴ to the LEA stating whether the SEA sustains each audit finding and the reasons why the SEA does or does not sustain each finding.⁵ The management decision must also describe the corrective actions that the LEA is required to take. According to Circular A-133, Section 400(d)(5), SEAs must ensure that LEAs take timely and appropriate action to correct any control weaknesses or instances of noncompliance identified through the single audit process. Circular A-133 includes detailed requirements for the content of the management decision, the timeframe for its issuance, and related SEA responsibilities.

The Department does not directly monitor the LEA single audit resolution practices of SEAs. Instead, it relies on statewide single audits to identify SEAs that have incomplete or ineffective oversight processes for LEA single audit resolution. The Department is responsible for overseeing the resolution of single audit findings at SEAs that involve Federal education programs.

According to Circular A-133, the auditee (SEA or LEA) holds primary responsibility for following up on its audit findings and ensuring that corrective action is taken. This responsibility includes the development of a corrective action plan to address each current-year finding and a schedule of prior-year findings that details the status of each prior finding. For repeat findings, the SEA or LEA must describe any corrective action that has been taken to date and what remaining corrective actions are planned. For subrecipient audits, the SEA has an oversight role

³ Although Circular A-133 has been superseded by the Uniform Grant Guidance, the SEA requirements described in this report continue to be in effect under the new regulations. We cite Circular A-133 requirements in this report because the Uniform Grant Guidance was not in effect during the period covered by the audit.

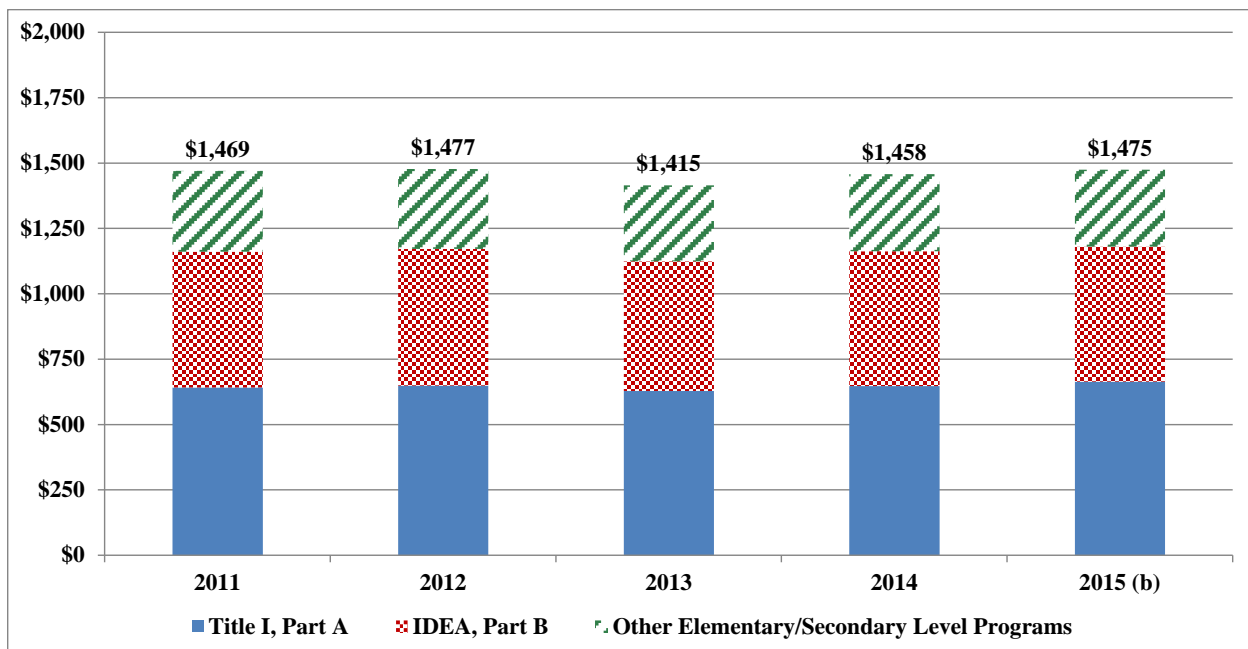
⁴ As explained in this report, a "management decision" is an SEA's written decision that it must issue to an LEA after it evaluates an LEA's audit findings and corrective action plan.

⁵ In this report, "audit finding" refers to a compliance finding for a Federal education program reported in the single audit, unless otherwise stated.

and must ensure that the LEA’s planned corrective actions are appropriate and implemented timely. LEA and SEA officials must have a shared commitment to correcting LEA audit findings for the audit resolution process to be successful.

Illinois has received, on average, about \$1.46 billion in Federal educational assistance each year since 2011. The two largest Federal elementary and secondary education grant programs are Title I, Part A of the Elementary and Secondary Education Act (Title I), which assists LEAs and schools with high numbers or high percentages of children from low-income families, and Part B of the Individuals with Disabilities Education Act (IDEA), which assists States and LEAs in meeting the needs of children with disabilities. Figure 1 shows the total amounts of Federal elementary and secondary education funds that the Department awarded to Illinois from FYs 2011–2015 for Title I, IDEA, and all other Federal elementary and secondary education programs combined.

Figure 1. Federal Elementary and Secondary Education Program Funds Awarded to Illinois in Millions (a)



(a) Source: State formula grant allocation tables from the Department’s Web site. Award totals do not include Federal education funds awarded directly by the Department on a competitive basis.

(b) 2015 grant totals are estimated.

Of the 1,075 LEAs operating in Illinois in FY 2012, 424 reported having a single audit performed. We reviewed single audit data from the Federal Audit Clearinghouse and identified 36 Illinois LEAs that had at least one audit finding that repeated for 3 or 4 years from FYs 2011–2014.⁶ We judgmentally selected four LEAs based on the (1) significance of the repeat findings, (2) number of years that the findings repeated, (3) total number of repeat findings at the LEA, and (4) size of the LEA in terms of student enrollment. In addition, we

⁶ The Federal Audit Clearinghouse collects and disseminates information about the results of single audits of State and local governments and nonprofit entities. The U.S. Census Bureau administers the Federal Audit Clearinghouse on behalf of OMB.

judgmentally selected two LEAs that had segregation of duties findings because we noted this as a recurring trend during the Illinois LEAs selection process.⁷ Table 1 provides details about the six LEAs selected for review.

Table 1. Illinois LEAs Selected for Review

Selected LEA	Enrollment (a)	Repeat Finding(s)
Chicago Public Schools	400,994	Eligibility for Title I, Part A, targeted assistance programs not properly monitored.
Rockford Public Schools	29,160	Time and effort certification forms not properly filed.
Springfield Public School District	15,228	Inadequate documentation of payroll expenditures, controls over capital assets, controls over private school participation, controls over expenditures incurred, and controls over monitoring level of effort.
Granite City Community Unit School District	6,606	The district obligated Title I funds prior to submitting applications for approval did not expend Title I funds in accordance with the program budget or have proper support for expenditures and filed Title I and II expenditure reports late.
Jacksonville Schools District	3,618	Segregation of duties related to Federal awards.
Rantoul City Schools	1,632	Segregation of duties related to Federal awards.

(a) Student enrollment totals as of 2013–2014. Source: 2013–2014 Home District Enrollment Report obtained from ISBE’s Web site.

ISBE’s Funding and Disbursement Services division (Funding and Disbursements) facilitates the single audit resolution process, which involved ISBE’s nine Federal program divisions. Funding and Disbursements was responsible for (1) identifying LEAs required to have a single audit each year; (2) ensuring single audit reports were submitted timely to ISBE; (3) reviewing single audit reports for quality, content, and funding accuracy; (4) identifying Federal award findings and recovering questioned costs; and (5) tracking single audit findings.⁸ Funding and Disbursements issued a memorandum to the Federal program division responsible for the program area cited in the single audit finding notifying the division of its responsibilities. The memorandum was accompanied by a copy of the finding and the corrective action plan as it appeared in the single audit report and the resolution criteria that the Federal program divisions used to report its determination back to Funding and Disbursements.

Once each responsible Federal program division received the memorandum and applicable documentation, they were notified of their responsibility to review the single audit findings. The Federal program division staff members were to (1) determine whether Federal funds were

⁷ We used a judgmental selection process to select the six LEAs for review; therefore, the results of our work cannot be projected to the population of all Illinois LEAs.

⁸ Funding and Disbursements tracked each single audit finding in a finding log, which included a description of the finding, the Federal program division (through project codes) and key dates to track the audit findings progress through resolution process.

appropriately expended, (2) use the corrective action plan as a guide for timely resolution of the findings, (3) communicate or follow up on the resolution of the findings, and (4) report their determinations back to Funding and Disbursements. If the Federal program divisions reported questioned costs to Funding and Disbursements that required a financial adjustment,⁹ Funding and Disbursements was responsible for issuing a letter notifying the applicable LEA of the adjustments or refund due, noting the impact of the adjustment on the LEA's Federal grant award for the following year.

AUDIT RESULTS

ISBE did not provide effective oversight to ensure that LEAs took timely and appropriate corrective action on single audit findings. This occurred because ISBE lacked an audit resolution process that effectively resolved findings, did not comply with Federal requirements, and lacked coordination among ISBE divisions and between ISBE and the LEAs. No one division within ISBE was overseeing this function and ISBE did not develop appropriate controls to identify weaknesses or areas of noncompliance. As a result, findings at numerous LEAs repeated for multiple years, putting Federal funds and program outcomes at risk.

In its comments to the draft report, ISBE agreed with the finding and recommendations. We summarize ISBE's comments at the end of the finding and include the full text of its comments as Attachment 2 of this report.

FINDING – ISBE Did Not Ensure that LEAs Took Timely and Appropriate Actions to Correct Single Audit Findings

ISBE did not ensure corrective action plans were appropriate to resolve the respective audit findings and prevent the findings from repeating. ISBE did not communicate effectively with LEAs during the audit resolution process to obtain sufficient information about the findings, or determine appropriate corrective actions. ISBE also did not issue management decisions for LEA single audit findings as required by Circular A-133. Finally, ISBE did not adequately track LEA findings or the status of corrective actions, nor did ISBE follow up with LEAs to ensure they timely implemented corrective actions.

ISBE Did Not Identify and Require Appropriate Corrective Actions

ISBE did not ensure that corrective action plans for the LEA audit findings were appropriate to resolve and prevent repeat audit findings. Specifically, we found that all five¹⁰ Federal Program divisions we reviewed accepted corrective plans that lacked sufficient detail or action items that would correct the condition or address the underlying cause for 49 of the 54 repeat

⁹ An audit adjustment is an increase or decrease made by Funding and Disbursements to the Federal grant award in the subsequent year or a refund made by the LEA to ISBE.

¹⁰ Department grant funds flowed through eight of the nine Federal program divisions and five of those divisions received single audit findings during our audit period.

single audit findings that we reviewed.¹¹ The corrective action plans were deemed appropriate and implemented based on each division’s responsible staff member’s review of the plan and the finding. These staff members were responsible for communication, which included contact with LEA officials through phone calls and/or email exchanges to confirm corrective actions. However, the evidence showed that this was only practiced by one of the five Federal program divisions and did not extend beyond confirming the corrective actions. Funding and Disbursements would receive and record each division’s determinations in the finding log. All 54 corrective action plans were recorded as appropriate and implemented without any ISBE division ensuring that LEAs took appropriate corrective action to resolve their single audit findings, as required by Section 400(d) (5) of Circular A-133.

Funding and Disbursements requested that each Federal program division report its determination through the submission of a “finding sheet.” The determination was recorded in a grey “For ISBE Review” box printed at the bottom of the copy of each finding. This contained two code categories associated with the status of resolution and questioned costs. The numeric codes (Codes 1–5) represented the status of each audit findings resolution status and the alpha codes (Codes A–E) represented each finding and related questioned costs. Table 2 below lists the codes ISBE used for audit resolution criteria.¹²

Table 2. ISBE Single Audit Resolution Criteria

Code	Resolution	Code	Questioned Costs
1	An appropriate action plan has been implemented.	A	Amounts shown as questioned costs were resolved by ISBE.
2	Corrective action is not necessary and this is not a finding.	B	Amounts shown as questioned costs are allowed costs in accordance with program regulations and should not have been questioned.
3	Corrective action is not necessary, reasons other than the prior. ¹³	C	Questioned costs were not recovered as they are immaterial to this project.
4	The finding will be further analyzed during an upcoming review/monitoring on-site visit or audit of the program.	D	There are no amounts shown as questioned costs.
5	Other (with explanation).	E	Send to Funding and Disbursements for financial adjustment.

The finding sheets we reviewed all used numeric code “1” for the resolution of the single audit finding and used either alpha codes “D” or “E” for the questioned costs of the single audit finding. There were 14 code “E” findings, of the 54 findings, and all had financial adjustments by Funding and Disbursements. The responsible Federal program division was not instructed to “clearly state” whether the single audit finding was sustained and reasons why the Federal program division reached its decision. Instead, they were instructed to determine whether the LEA spent Federal funds appropriately and then assign the appropriate

¹¹ We reviewed all 54 corrective action plans for each of the applicable single audit findings we selected that repeated for 3 or 4 years in FYs 2011–2014 at the six selected LEAs.

¹² The alpha and numeric code justifications were taken directly from ISBE’s single audit resolution criteria.

¹³ The numeric code justification, “reasons other than the prior,” was language ISBE used to refer to the numeric code “2.”

codes for each audit finding before returning the finding sheet to Funding and Disbursements. If the Federal program division selected alpha code “E,” it indicated the expected action to repay the disallowed costs. This prompted Funding and Disbursements to issue a letter to the LEAs noting an audit adjustment or noting a refund due to ISBE from the LEA. This letter was the only formal document issued to the LEAs and it did not clearly state any of the required elements of a management decision aside from the expected action to repay the disallowed costs. For the remaining 40 single audit findings without questioned costs, LEAs received no formal written communication about the findings from the Federal program divisions or Funding and Disbursements.

We found that Granite City Community Unit School District had three separate repeat single audit findings with questioned costs that were all first reported in FY 2008 and repeated in its FY 2014 single audit report. The independent public accountant identified about \$671,526 in total questioned costs related to the lack of adequate procedures to ensure that the LEAs performed required administrative responsibilities. Other than the letters from Funding and Disbursements notifying Granite City Community Unit School District of the audit adjustment made to its Federal award each year, no Federal program divisions contacted LEA officials or were involved in the resolution of these single audit findings. Further, the corrective action plans stated that, “[t]he District will implement additional controls to ensure that all deadlines are being met” for all three findings in FYs 2011 through 2014. The Federal program divisions deemed these corrective actions to be appropriate and implemented, yet each year reported to Funding and Disbursements of the need for an audit adjustment prompting the letter to be issued notifying the LEA of the audit adjustment without identifying and requiring an amended appropriate corrective action to resolve the underlying cause and/or condition for the audit findings.

We also found that Rantoul City Schools had a repeat audit finding that was first reported in FY 2009 without questioned costs and repeated through FY 2014, despite being reported each year in its single audit report. The corrective action plan, which the Federal program division deemed appropriate, stated that, “[t]he District will continue to review the current practice for a reasonable solution and implementation process to improve internal controls.” This corrective action plan was intended to address a lack of segregation of duties, but did not provide details about how the LEA would improve its internal controls. Further, the LEA and its independent public accountant agreed to use the identical corrective action plan each year from FYs 2011 through 2014 and the Federal program division reported to Funding and Disbursements that the plan was appropriate and implemented each year even though the findings continued to repeat. Neither the responsible Federal program division nor Funding and Disbursements provided evidence that it obtained any additional details about the corrective actions or issued any formal communication to Rantoul officials. The corrective actions for both Granite City Community Unit School District and Rantoul City Schools identified the need for internal controls, but were not specific enough to ensure that the actions described would resolve the finding.

ISBE Did Not Communicate Effectively With LEA Officials Regarding Audit Resolution

ISBE did not communicate effectively with LEAs during the single audit resolution process. Specifically, Federal program divisions did not proactively and cooperatively engage LEA officials to ensure the LEAs took corrective actions that were both timely and appropriate. The

six LEAs we reviewed had single audit findings cited for program areas that were administered by five of the eight Federal program divisions. During interviews with the division administrators, three stated that their staff communicated with LEAs regarding the resolution of single audit findings through emails and/or phone calls to discuss the corrective actions contained in the single audit report. However, only one of the divisions provided evidence of LEA communications and we noted that it did not extend beyond confirmation of the corrective actions listed in the audit report. Further, one of the three division administrators stated that his staff provided additional guidance to LEAs during the audit resolution process, including on-site technical assistance, if necessary. However, the administrator did not provide evidence that the division had given technical assistance to LEAs related to audit resolution. Officials from all six LEAs stated that no Federal program division had been in contact with them or involved in the resolution of their findings during the audit period. We found that Funding and Disbursements' communication with LEAs was limited to standard notifications about financial adjustments made to the LEA's Federal award and the Federal programs divisions did not consistently communicate to confirm corrective actions.

Circular A-133 does not specify the degree of outreach and communication that SEAs must have with LEAs related to single audit resolution, as long as SEAs fulfill the specific requirements for pass-through entities. However, proactive and cooperative engagement with LEA officials facilitates the audit resolution process by enabling the SEA to ensure that LEAs take corrective actions that are both timely and appropriate. The Department's guide on cooperative audit resolution provides guidance for how entities can improve communication and interaction during the audit resolution process.¹⁴ The guide states that oral communication between the auditee and oversight agency is an essential component of audit resolution and that complex findings may require full and open dialogue among all participants on a continuing basis. Although the guide targets cooperation between Federal and State agencies when resolving State level audit findings related to Federal programs, it also states that SEAs and LEAs can apply these tenets of cooperative audit resolution. Principles of cooperative audit resolution are now included in the Uniform Grant Guidance as a requirement for Federal agencies. According to Uniform Grant Guidance § 200.25, "[c]ooperative audit resolution means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity."

ISBE Did Not Issue Management Decisions for LEA Audit Findings

ISBE did not issue management decisions for LEA single audit findings as required by Circular A-133. ISBE provided us with a finding sheet as its single audit resolution documentation to the 54 repeat single audit findings at the 6 LEAs. We found that the finding sheet was not a management decision as it did not include all of the required information and ISBE did not issue the internal document to the LEAs.

According to Section 405(a) of Circular A-133, "[t]he management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected

¹⁴ U.S. Department of Education, Cooperative Audit Resolution and Oversight Initiative (1999) "Discovering New Solutions through Cooperative Audit Resolution: A Guide." This has been adopted by Association of Government Accountants' Intergovernmental Partnership, which makes two guides now available online.

auditee action to repay disallowed costs, make financial adjustments, or take other action.... The management decision should describe any appeal process available to the auditee.” According to Section 105 of Circular A-133, a “[m]anagement decision means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.”

We interviewed seven Federal program division administrators¹⁵ and found that none were familiar with the term “management decision.” We also determined that none of the Federal program divisions issued documentation to the LEAs that included the required information for a management decision. Officials from the six LEAs confirmed that they received no documentation from the Federal program divisions and they were not familiar with the requirement for management decisions.

The Federal program divisions did not convey in writing to the LEA what ISBE expected the LEAs to do to take “timely and appropriate” action. ISBE did not have a formal appeal process, and the LEA was not informed of any possible action it could take if the LEA disagreed with Federal program division’s final determination of a financial adjustment being made to their Federal grant award.

ISBE Did Not Adequately Track the Resolution of Findings or Follow Up on Corrective Actions

Funding and Disbursements did not adequately track the resolution of LEA findings and the Federal program divisions did not follow up on the status of corrective actions. Funding and Disbursements was responsible for tracking single audit findings, while the Federal program divisions were responsible for carrying out audit resolution activities. Funding and Disbursement’s tracking process relied primarily on the codes and the receipt dates of the finding sheets by the Federal program divisions. Officials in Funding and Disbursements stated that they expected the Federal program divisions to address findings with the appropriate amount of scrutiny before submitting the finding sheet and to follow-up with the LEA on the status of corrective actions. However, because the Federal program divisions did not identify and require appropriate corrective actions prior to submitting the codes to Funding and Disbursements, the findings were “closed”¹⁶ within the tracking process without assurance that the corrective actions were appropriate and implemented to resolve the findings. According to one Federal program division administrator, his staff identified repeat audit findings and tracked the resolution status of their audit findings and provided evidence of the tracking practices (i.e. tracking criteria and spreadsheet). Three division administrators were unaware of the repeat audit findings in their Federal program divisions and generally did not follow up on the status of corrective actions plans after returning the finding sheet to Funding and Disbursements. Because Funding and Disbursements did not adequately track audit findings and the Federal program divisions did not consistently follow up on corrective actions, ISBE could not ensure that the LEAs took appropriate and timely corrective action as required by Section 400(d)(5) of Circular A-133.

¹⁵ We did not interview the division administrator from Nutrition & Wellness because the Federal program division was not funded by the Department.

¹⁶ An audit review is “closed” when Funding and Disbursements has received and verified all corrections made by the LEA and has received the appropriate documentation from the Federal program divisions.

The tracking performed by Funding and Disbursements did not include any information to justify closing each audit finding in a given year, which should include follow-ups with the LEAs to ensure the corrective actions were appropriate, timely, and implemented. For example, Chicago Public Schools had a single audit finding first reported in FY 2012 that repeated through FY 2014, despite being reported every year in a single audit report. The finding concerned the lack of support to verify that Chicago Public Schools used Title I funds only for programs designed to meet the need of eligible students. The independent auditors identified over \$1.2 million in total questioned costs during this period. For three consecutive years, Funding and Disbursements recorded the single audit finding information, the same resolution codes, made the audit adjustments and issued the letters noting the adjustments or refunds due. Even though each year's single audit report stated that Chicago Public Schools had not implemented the corrective action plan or resolved the audit finding, Funding and Disbursements closed these audit findings the end of each year and the finding sheet indicated that the corrective action plans were appropriate and implemented.

Tracking audit findings is an essential component of an SEA's oversight of LEA audit resolution. Without an adequate tracking system for individual findings, Funding and Disbursements cannot easily identify specific findings reported at LEAs across the State, determine how many times each finding has repeated, or effectively follow up to ensure that LEAs take timely corrective actions. In addition, ISBE lacks a tool that could provide a control mechanism allowing it to periodically assess the pervasiveness of LEA risks of noncompliance with Federal requirements, the existence of systemic control weaknesses across LEAs, and the risk of improper payments.

Underlying Weaknesses in ISBE's Oversight of LEA Audit Resolution

The weaknesses noted above occurred because the LEA single audit resolution process was divided between Funding and Disbursements and the various Federal program divisions, with no one division overseeing and ensuring the findings were resolved. Specifically, Funding and Disbursements processed LEA's single audit reports, tracked LEA findings, and recovered any questioned costs, while the resolution of all single audit findings was handled by the Federal program divisions. Funding and Disbursements designed and monitored only the portion of ISBE's single audit resolution process over which it had responsibility. The Federal program divisions lacked written policies and varied in how they conducted audit resolution.

ISBE did not develop and implement policies and procedures for resolving single audit findings for each Federal program division involved in the process. Funding and Disbursements developed policies and procedures governing its own process for resolving single audits that quoted Circular A-133 Section 400(d)(5) and Section 405 and then described the Federal program division's responsibility to issue management decisions. However, these policies and procedures did not include an effective level of communication between ISBE and the LEAs to resolve audit findings, how to evaluate a finding and the corrective action plan, and how to track findings and follow up on corrective actions. Funding and Disbursements also did not distribute these policies and procedures to each of the responsible Federal program divisions. We found that one division administrator possessed a version of the Federal program division's responsibilities as described in the policies and procedures, but possession of this information did not result in the issuance of management decisions to the LEAs. This division administrator stated he was not familiar with the term "management decision." The remaining division

administrators stated they were unaware of the existence of any policies and procedures for the single audit resolution process. Although Funding and Disbursements issued a memorandum to the responsible Federal program divisions each year regarding applicable single audit findings, the memorandum did not identify the Federal requirements or the Federal program division's responsibility to issue management decisions. It requested that the responsible Federal program division review the finding and determine whether Federal funds were appropriately expended and identified the Federal program division's responsibility to communicate and follow up with the LEAs to resolve the finding.

Written policies and procedures are an essential component of effective internal control. The "Internal Control-Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a widely accepted standard for internal control in organizations. The Internal Control-Integrated Framework identifies five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) that must all be adequately designed, implemented, and operating in an integrated manner for internal control to be effective. The U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government" adapts COSO for the government environment. According to those standards, management is responsible for designing policies and procedures to fit the organization's circumstances and incorporating them as an integral part of its operations. An organization's control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.

Finally, without adequate oversight of the single audit resolution process, ISBE had no assurance of its effectiveness. ISBE had controls to identify and notify applicable LEAs to timely complete single audit reports, to perform multiple reviews of the single audit reports for completeness and accuracy, and to track the completion of ISBE's finding sheets by the Federal program divisions. However, ISBE lacked the policies and procedures to ensure effective internal and external communication; proper evaluation of findings and corrective actions; the timely resolution of findings; and compliance with regulatory requirements. Had ISBE instituted a management review and quality assurance process to assess its performance and its oversight of the single audit resolution process, it would have been able to evaluate its overall effectiveness. These processes would have been able to systematically detect and correct errors, control weaknesses, and noncompliance with regulatory requirements.

By not issuing management decisions, ISBE did not provide the necessary guidance to LEAs in-order to timely and appropriately resolve single audit findings. Further, ISBE did not comply with Federal requirements, putting education program funds and program outcomes at risk. ISBE did not identify appropriate corrective actions, track and follow-up on findings and corrective action plans, thus resulting in single audit findings repeated for multiple years, often with financial implications as evident with 14 of the 54 repeat findings that had questioned costs.

Based on our analysis of single audit data from the Federal Audit Clearinghouse, Illinois had among the highest number of LEAs (36 of 424), with repeat findings for 3-4 years in any State. The repeat findings included those described earlier as well as multiple findings at other LEAs related to inaccurate or untimely financial reporting for Federal education grants, insufficient documentation of personnel time and effort charged to Federal grants, and failure to check the Federal suspension and debarment list before awarding contracts to vendors.

Recommendations

We recommend that the Director of the Office of the Chief Financial Officer's Post Audit Group require ISBE to—

- 1.1 Assign responsibility for designing and overseeing ISBE's LEA single audit resolution process to a single division. This division would be responsible for ensuring that the audit resolution process effectively resolves findings, complies with Federal requirements, and coordinates with other ISBE divisions and communicates with the LEAs.
- 1.2 Revise existing written policies and procedures pertaining to the LEA single audit resolution process based on the weaknesses identified in this report, distribute these procedures to program divisions, and ensure that Federal program divisions fully implement these procedures.
- 1.3 Develop a management decision template that meets regulatory requirements for content and require issuance of a management decision letter to applicable LEAs for every Federal education program finding.
- 1.4 Modify the current tracking methods for individual LEA audit findings to identify repeat findings and the status of the corrective action plan for the finding to facilitate effective oversight and timely LEA finding resolution. ISBE should not close the finding until the LEA has demonstrated that it has fully implemented all required corrective actions.
- 1.5 Take immediate action to ensure that all LEAs that currently have unresolved repeat findings, including those highlighted in this report, take prompt and appropriate corrective actions. ISBE should initially prioritize the resolution of the findings with the greatest program or fiscal impacts and contact the Department as necessary for guidance and assistance.
- 1.6 Establish an internal management review process to be conducted by the unit assigned responsibility for ISBE's LEA single audit resolution process. This review process should cover the status and performance of ISBE's activities related to LEA single audit resolution.
- 1.7 Design and implement a periodic quality assurance process for ISBE's LEA single audit resolution oversight activities to detect and correct errors, control weaknesses, and noncompliance with regulatory requirements. The quality assurance review should be conducted by an ISBE unit that is not involved in any aspect of LEA audit resolution.

ISBE Comments

In its response to the draft report, ISBE agreed with the finding and the recommendations. ISBE stated that it will take immediate action to resolve repeat single audit findings. Further, ISBE stated that it will provide technical assistance to the program areas to assist them in taking an active role in corrective action implementation to ensure resolution. ISBE also noted that the

State of Illinois is in the process of implementing the Illinois Grant Accountability and Transparency Act, which will ensure ISBE and other State agencies have a more streamlined process and are able to provide an adequate and timely review of single audit reports.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether ISBE provided effective oversight to ensure that LEAs took timely and appropriate action to correct single audit findings. Our audit covered ISBE's processes and activities related to the resolution of LEA single audit findings that occurred in FYs 2011–2014.

To achieve our audit objective, we performed the following procedures:

1. Reviewed applicable sections of the Single Audit Act of 1984, Circular A-133, the Circular A-133 Compliance Supplement dated March 2014, and the Uniform Grant Guidance to gain an understanding of the oversight responsibilities of the Department and SEAs related to LEA single audit resolution.
2. Reviewed previous reports issued by our office and the U.S. Government Accountability Office that addressed various aspects of SEA oversight of LEAs, including the resolution of LEA audit findings.
3. Judgmentally selected six Illinois LEAs for review (see “Sampling Methodology” below).
4. Reviewed all of the FYs 2011–2014 single audit reports for ISBE and the six selected LEAs to identify information relevant to the audit objective, including repeat findings and areas of internal control weakness at the entities.
5. Interviewed ISBE officials and reviewed ISBE's written policies and procedures to gain an understanding of ISBE's oversight processes related to LEA single audit resolution and other areas relevant to the audit objective.
6. Interviewed officials at each of the six LEAs to obtain information about the repeat findings and to evaluate the nature and extent of ISBE's interaction with the LEAs related to the resolution of the findings.
7. Requested management decision letters and reviewed the documentation provided for adherence to Circular A-133 requirements for content and timeliness. We also obtained and reviewed any other available documentation regarding ISBE communications with the LEAs related to the resolution of audit findings.

Sampling Methodology

Selection of LEAs. We extracted and analyzed data from the Federal Audit Clearinghouse to identify Illinois LEAs that had repeat audit findings during the audit period. We identified 36 LEAs that had findings that repeated for 3 or 4 years from 2011–2014. We judgmentally selected 6 of the 36 LEAs and then obtained as well as reviewed each single audit report to gain more information about the nature and significance of the repeat findings. To achieve our objective, we judgmentally selected 4 of the 36 LEAs for review based on the following factors: (a) significance of the repeat findings, (b) number of years that the findings repeated, (c) total number of repeat findings at the LEA, and (d) the size of the LEA in terms of student enrollment. The LEAs selected were: Springfield Public School District, Granite City Community Unit School District, Chicago Public Schools, and Rockford Public Schools were initially selected.

During our review of the Federal Audit Clearinghouse data we noted a trend of recurring findings related to segregation of duties at 9 of the 36 LEAs with repeat findings. Therefore, we selected two additional LEAs for review with segregation of duties findings due to their size and repeat findings. We selected the Jacksonville School District and Rantoul City Schools with segregation of duties findings that recurred in FYs 2010–2014.

We used a judgmental selection process to choose six sample LEAs for review. As a result, we cannot project our results to the population of all Illinois LEAs.

Selection of Management Decision Letters. We requested management decision letters for the universe of 54 findings from 23 single audit reports, which included 42 repeat findings for 3 or 4 years in FYs 2011–2014 at the 4 LEAs initially selected and the 12 segregation of duties findings from the two additional LEAs selected. ISBE did not provide management decisions letters, but instead provided finding sheets that it considered to be sufficient to address the 54 audit findings. We determined that the finding sheets were not sufficient and that ISBE did not issue any management decisions as required by Circular A-133, which we fully discuss in the Audit Results section.

We held an entrance conference with ISBE officials and performed onsite audit work at ISBE's offices in Springfield, Illinois, in September 2015. We interviewed officials at Springfield Public School District, Granite City Community Unit School District, Jacksonville School District and Rantoul City Schools at their offices in September 2015 and interviewed officials at Chicago Public Schools and Rockford Public Schools in October 2015. We conducted an exit conference with ISBE officials on April 20, 2016.

We assessed ISBE's internal controls over LEA to ensure the single audit findings are corrected by reviewing ISBE's policies and procedures, internal audit finding tracking log, other relevant documentation and interviewing ISBE and LEA officials. We concluded that ISBE did not provide effective oversight to ensure that LEAs took timely and appropriate corrective action on single audit findings

Our use of computer-processed data was limited to a review of ISBE's audit finding tracking log. We performed a limited assessment of the accuracy and completeness of data for the audit period FYs 2011–2014. We traced a sample of log entries to the support documentation to verify the

correct codes as well as matched each requested finding sheet to the corresponding log entry and found it to be sufficiently reliable for our audit purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on this audit:

Charles Laster
Director, Post Audit Group
Office of the Chief Financial Officer
U.S. Department of Education
550 12th Street SW
6th Floor
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 calendar days would be appreciated.

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.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General for Audit

Attachment 1: Abbreviations, Acronyms, and Short Forms Used in this Report

Audit finding	Compliance finding for a Federal education program reported in a Circular A-133 single audit
COSO	Committee of Sponsoring Organization of the Treadway Commission
Department	U.S. Department of Education
Funding and Disbursements	Funding and Disbursements Services Division
FY	Fiscal Year
IDEA	Part B of the Individuals with Disabilities Education Act
ISBE	Illinois State Board of Education
LEA	Local Educational Agency
OMB	Office of Management and Budget
SEA	State Educational Agency
Title I	Title I, Part A of the Elementary and Secondary Education Act
Uniform Grant Guidance	Title 2 of the Code of Federal Regulations

Attachment 2: ISBE Comments on the Draft Report



Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001
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James T. Meeks
Chairman

Tony Smith, Ph.D.
State Superintendent of Education

October 20, 2016

Mr. Daniel Schultz
Regional Inspector General
Audit Services New York/Dallas Region
32 Old Slip
New York, NY 10005

RE: ED-OIG/A02P0008

Dear Mr. Schultz:

As requested, attached you will find the response to the draft finding which was noted in your audit "Illinois State Board of Education's Oversight of Local Educational Agency Single Audit Resolution." The Illinois State Board of Education (ISBE) understands the importance of the single audit process and will make resolution of the noted finding a priority as documented in the Agency response.

As always ISBE appreciates your feedback and the recommendations to strengthen the single audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Smith".

Tony Smith, Ph.D.
State Superintendent of Education

Attachment

Response from ISBE related to ED-OIG/A02P0008

ISBE agrees with the finding and the recommendations.

ISBE will take immediate action as it relates to unresolved repeat single audit findings. For all single audits received in the FY17 cycle, ISBE will identify repeat findings, both financial and non-financial, and monitor the progress of the resolution. Technical assistance will be provided to the program areas within ISBE to assist them in taking an active role in the corrective action implementation to ensure resolution. ISBE will also continue to evaluate the resolution process in FY17 while aligning resources and tracking outcomes as the administrative function of the single audit review process transitions to the Grants Accountability and Transparency Unit (GATU) in FY18.

The State of Illinois is in the process of implementing the Illinois Grant Accountability and Transparency Act (GATA), which includes discussions related to the subrecipient single audit review function to ensure ISBE, along with other state agencies, have a more streamlined process and are able to provide an adequate and timely review of single audit reports. The intent of this function at GATU, which is housed in the Governor's Office of Management and Budget, will be to design, oversee, and track the single audit process from beginning to end. ISBE will continue to play a role at the programmatic level and will implement the recommendations related to subrecipient resolution of findings as part of the new process. As this process is developed and implemented, ISBE will share these recommendations with GATU so the unit is aware of the expectations of the U.S. Department of Education. ISBE will continue to monitor this process and the implementation by GATU to ensure the processes and procedures are inclusive of the recommendations.