AGENDA

1. Public Participation
2. FY07 budget calendar/timeline (Linda Mitchell/Ronny Wickenhauser) (pp. 2-6)
3. Printing & Video Costs (Linda Mitchell) (pp. 7-8)
* 4. Discussion of Chicago Public Schools Supplemental General State Aid Plan (Rich Loman) (pp. 278-300 Plenary Packet)
* 5. Presentation of the FY04 A-133 Statewide Single Audit (Mark Kolaz/Debbie Scheiter) (pp. 301-335 Plenary Packet)
6. Quarterly update--external audit findings (Mark Kolaz/Debbie Scheiter) (pp. 9-69)
7. Additional items
8. Adjourn

* Items listed with an asterisk (*) will be discussed in committee and action will be taken in the plenary session.
TO: Illinois State Board of Education
FROM: Dr. Randy J. Dunn, State Superintendent of Education
Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: FY 2007 Budget Process Draft Timeline

Materials: FY 2007 Budget Calendar

Staff Contact(s): Ronny Wickenhauser, Division Administrator, Budget and Financial Management

Purpose of Agenda Item
The Finance and Audit Committee has requested outline of the steps in the FY07 budget process be prepared. Completion of the budget is a complex process including the activities of many stakeholders and participants including the general public, the Board, and ISBE staff, as well as the Governor, the General Assembly, and the Governor’s Office of Management and Budget.

Expected Outcome(s) of Agenda Item
The Finance and Audit Committee may use the calendar/timeline as a guide to when Board action may be needed and determining the work to be done by ISBE staff.

Background Information
The State Board of Education is responsible for approving the State budget for elementary and secondary education prior to submitting it to the General Assembly. This agenda item will assist the Board in setting a timeline for action as they work through the FY07 budget process.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
This item is intended to be for informational purposes only.

Policy Implications: N/A
Budget Implications: N/A
Legislative Action: N/A
Communication: N/A

Pros and Cons of Various Actions
N/A

Superintendent’s Recommendation
This item is for informational purposes only. No action is required.

Next Steps
Updates on this agenda item may be provided to the Board as circumstances warrant.
<table>
<thead>
<tr>
<th>Month</th>
<th>Item</th>
<th>ISBE Staff</th>
<th>Board</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep</td>
<td>Begin update of budget detail pages</td>
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<td></td>
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<tr>
<td>Sep</td>
<td>Begin update of demographics, performance measures and other statistics</td>
<td></td>
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<tr>
<td>Sep</td>
<td>Finalize FY06 General State Aid</td>
<td></td>
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<tr>
<td>Sep</td>
<td>Meet with Division Administrators on FY07 budget needs</td>
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<tr>
<td>Sep</td>
<td>Begin filling out Legislative Research Unit forms for federal funds received by ISBE</td>
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<tr>
<td>Sep</td>
<td>Discuss budget development process with Board Finance and Audit Committee</td>
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<tr>
<td>Sep</td>
<td>Federal allocations to Illinois for FY06 finalized</td>
<td></td>
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<tr>
<td>Sep</td>
<td>Review final FY05 expenditures</td>
<td></td>
<td></td>
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<tr>
<td>Oct</td>
<td>Preliminary final data for FY06 Mandated Categoricals (reimbursement programs)</td>
<td></td>
<td></td>
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<tr>
<td>Oct</td>
<td>Legislative proposals submitted to Legislative Affairs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td>Bill review team reviews legislative proposals</td>
<td></td>
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<tr>
<td>Oct</td>
<td>Finalize Legislative Research Unit forms for federal funds received by ISBE</td>
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<tr>
<td>Oct</td>
<td>Discuss FY07 spending priorities</td>
<td></td>
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<tr>
<td>Oct</td>
<td>Discuss initial thoughts/projections on operational needs with board</td>
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<tr>
<td>Oct</td>
<td>Discuss the impact of federal budget cuts with board</td>
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<tr>
<td>Oct</td>
<td>Discuss the impact of continuing and new FY06 initiatives with board</td>
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<tr>
<td>Oct</td>
<td>Discuss integration of strategic plan into FY07 budget</td>
<td></td>
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<tr>
<td>Oct</td>
<td>Public hearing on budget priorities (Danville)</td>
<td></td>
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<tr>
<td>Oct</td>
<td>Fix FY07 Textbook Reappropriation language in veto session</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Nov</td>
<td>Finalize budget detail pages (except FY07 budget numbers)</td>
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</table>
### Illinois State Board of Education

#### Budget/Legislative Process - FY2007

<table>
<thead>
<tr>
<th>Month</th>
<th>Item</th>
<th>ISBE Staff</th>
<th>Board</th>
<th>External</th>
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</thead>
<tbody>
<tr>
<td>Nov</td>
<td>Finalize update of demographics, performance measures and other statistics</td>
<td>●</td>
<td></td>
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<tr>
<td>Nov</td>
<td>Complete estimated cash flows for other state funds</td>
<td>●</td>
<td></td>
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<tr>
<td>Nov</td>
<td>Begin allocations of personnel and other operational costs by division</td>
<td>●</td>
<td></td>
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<tr>
<td>Nov</td>
<td>Submit Legislative Research Unit forms for federal funds received by ISBE</td>
<td>● ●</td>
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</tr>
<tr>
<td>Nov</td>
<td>Legislative proposals submitted for review/approval</td>
<td>● ●</td>
<td></td>
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</tr>
<tr>
<td>Nov</td>
<td>Public hearings on budget priorities (Quincy, Mt. Vernon, Westmont and Chicago)</td>
<td>●</td>
<td></td>
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<tr>
<td>Nov</td>
<td>Fix FY07 Textbook Reappropriation language in veto session</td>
<td>● ●</td>
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<tr>
<td>Dec</td>
<td>Finalize data for FY06 Mandated Categoricals (reimbursement programs)</td>
<td>●</td>
<td></td>
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<tr>
<td>Dec</td>
<td>Begin estimates for FY07 Mandated Categoricals</td>
<td>●</td>
<td></td>
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<tr>
<td>Dec</td>
<td>Provide estimates for FY07 General State Aid (based on estimated EAVs and ADAs)</td>
<td>●</td>
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<tr>
<td>Dec</td>
<td>Discussion on statewide revenue trends with Economic and Fiscal Commision and GOMB with Board Finance and Audit Committee</td>
<td>● ● ●</td>
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<tr>
<td>Dec</td>
<td>Begin filling out Illinois State Legislature (ISL) budget forms</td>
<td>●</td>
<td></td>
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<tr>
<td>Dec</td>
<td>Final language prepared for legislative proposals</td>
<td>●</td>
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<tr>
<td>Dec</td>
<td>Annual Report written/reviewed</td>
<td>● ●</td>
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<tr>
<td>Dec</td>
<td>Discussion on statewide revenue trends</td>
<td>● ● ●</td>
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<tr>
<td>Dec</td>
<td>Finalize FY07 spending priorities</td>
<td>● ●</td>
<td></td>
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<tr>
<td>Dec</td>
<td>Estimate federal grant awards/appropriations for FY07</td>
<td>●</td>
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<tr>
<td>Dec</td>
<td>Budget discussions with Governor's Office/GOMB</td>
<td>● ●</td>
<td></td>
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</tr>
<tr>
<td>Jan</td>
<td>Continue filling out ISL forms</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>Begin filling out GOMB budget forms</td>
<td>●</td>
<td></td>
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<tr>
<td>Month</td>
<td>Item</td>
<td>ISBE Staff</td>
<td>Board</td>
<td>External</td>
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<tr>
<td>Jan</td>
<td>Submit Annual Report to the General Assembly</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Jan</td>
<td>Legislative proposals introduced in the General Assembly</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Jan</td>
<td>Complete DRAFT FY07 budget and review</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Jan</td>
<td>Board Finance and Audit Committee recommends FY07 budget to Board and Board adopts FY07 budget</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Jan</td>
<td>Budget discussions with Governor's Office/GOMB</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Jan</td>
<td>Appropriation hearings??</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Jan</td>
<td>Hearings on legislative proposals??</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>President's introduces FFY07 budget</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Feb</td>
<td>Provide GSA dollar estimates to Governor's Office/GOMB based on foundation level and other scenarios in the Governor's introduced budget (will still be based on estimated EAV and ADA data unless preliminary data is available for Revenue)</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Provide final Mandated Categorical estimates to Governor's Office/GOMB for Governor's introduced budget</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Feb</td>
<td>Governor's Office/GOMB finalized ISBE FY07 budget for Governor's introduced budget</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Finalize and submit ISL forms based on Governor's introduced budget</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Finalize and submit GOMB budget forms based on Governor's introduced budget</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Print FINAL FY07 ISBE budget book based on Governor's introduced budget and review</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Public hearings on FINAL ISBE budget??</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Draft and submit ISBE appropriation bill</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Governor's budget message (February 15)</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Appropriation hearings</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Feb</td>
<td>Hearings on legislative proposals</td>
<td>●</td>
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<tr>
<td>Month</td>
<td>Item</td>
<td>ISBE Staff</td>
<td>Board</td>
<td>External</td>
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<tr>
<td>Mar</td>
<td>Provide GSA estimates based on preliminary EAVs and ADAs</td>
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<td>Mar</td>
<td>Budget Implementation (BIMP) discussions</td>
<td>●</td>
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<tr>
<td>Mar</td>
<td>Appropriation hearings</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Mar</td>
<td>Hearings on legislative proposals</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Apr</td>
<td>Budget Implementation (BIMP) discussions</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Apr</td>
<td>Appropriation hearings</td>
<td>●</td>
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<tr>
<td>Apr</td>
<td>Hearings on legislative proposals</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Budget Implementation (BIMP) discussions</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Appropriation hearings</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Appropriation hearings</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Hearings on legislative proposals</td>
<td>●</td>
<td>●</td>
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</tr>
<tr>
<td>May</td>
<td>Provide GSA dollar estimates based on settled foundation level and other scenarios in the final budget (will be based on preliminary EAV and ADA data)</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Final Mandated Categorical numbers based on settled budget</td>
<td>●</td>
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<tr>
<td>May</td>
<td>Final FY07 budget passed</td>
<td>●</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Jun</td>
<td>Final FY07 budget summary</td>
<td>●</td>
<td>●</td>
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</tr>
</tbody>
</table>
TO: Illinois State Board of Education
FROM: Dr. Randy J. Dunn, State Superintendent of Education  
Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: Printing & Video Costs

Materials: Printing and Video Expenditures Schedule – FY05 v. FY06

Staff Contact(s): Ronny Wickenhauser, Division Administrator, Budget and Financial Management

Purpose of Agenda Item
Members of the Board expressed interest in actual savings achieved from reductions in headcount and cost in FY2005 through restructuring the delivery of printing and video services.

Expected Outcome(s) of Agenda Item
This agenda item will be ongoing and is intended to be for informational and discussion purposes only.

Background Information
In FY2005, the State Board of Education was charged with looking for ways to streamline operations including printing and video costs.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
This item is intended to be for informational purposes only.

Policy Implications: N/A

Budget Implications: ISBE eliminated positions and donated equipment to other state agencies. These agencies are to perform certain in-kind services. IDOT has already printed new letterhead for ISBE and has agreed to do other print jobs in the future.

Legislative Action: N/A

Communication: N/A

Pros and Cons of Various Actions
N/A

Superintendent’s Recommendation
This item is for informational purposes only. No action is required.

Next Steps
Updates on this agenda item will be provided to the Board regularly as part of the financial statements.
### Printing and Video Expenditures - FY05 v. FY06 YTD

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Actual FY05</th>
<th>Through 8/05</th>
<th>Diff.</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries and benefits</strong></td>
<td></td>
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<tr>
<td>3 FTEs - Television Studio</td>
<td>212,753</td>
<td>-</td>
<td>(212,753)</td>
<td></td>
</tr>
<tr>
<td>3 FTEs - Print Shop</td>
<td>166,100</td>
<td>(166,100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 FTE - Copy Center</td>
<td>57,222</td>
<td>9,083</td>
<td>(48,139)</td>
<td></td>
</tr>
<tr>
<td><strong>Lease Costs - Television Studio</strong></td>
<td>100,965</td>
<td>100,965</td>
<td>-</td>
<td>Lease costs are paid in 2 installments - entire amount is represented here</td>
</tr>
<tr>
<td><strong>Lease Costs - Print Shop</strong></td>
<td>85,815</td>
<td>85,815</td>
<td>-</td>
<td>Lease costs are paid in 2 installments - entire amount is represented here</td>
</tr>
<tr>
<td><strong>Copy Center Supplies (other than paper)</strong></td>
<td>106,341</td>
<td>4,044</td>
<td>(102,297)</td>
<td></td>
</tr>
<tr>
<td><strong>Commodities/Supplies - Print Shop</strong></td>
<td>64,107</td>
<td>(64,107)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Repair/Maintenance Costs</strong></td>
<td>22,008</td>
<td>173</td>
<td>(21,835)</td>
<td></td>
</tr>
<tr>
<td><strong>Envelopes and Business Cards</strong></td>
<td>19,530</td>
<td>1,525</td>
<td>(18,005)</td>
<td>851,000 envelopes in FY05; 35,000 envelopes in FY06</td>
</tr>
<tr>
<td><strong>Printing Projects</strong></td>
<td>14,545</td>
<td>14,747</td>
<td>202</td>
<td>See Note 1</td>
</tr>
<tr>
<td><strong>Contractual Services - Television Studio</strong></td>
<td>9,392</td>
<td>-</td>
<td>(9,392)</td>
<td></td>
</tr>
<tr>
<td><strong>Other Operations - Television Studio</strong></td>
<td>2,150</td>
<td>-</td>
<td>(2,150)</td>
<td></td>
</tr>
<tr>
<td><strong>Copy and Other Paper</strong></td>
<td>3,325</td>
<td>15,800</td>
<td>12,475</td>
<td>652,500 sheets in FY05; 4,000,000 sheets in FY06</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>$864,253</td>
<td>$232,152</td>
<td>($632,101)</td>
<td></td>
</tr>
</tbody>
</table>

(1) Includes printing projects such as Mealtime Minutes and The Outlook for Child Nutrition section, Arts Education Week posters, and the Annual Report on Special Education.
TO: Illinois State Board of Education

FROM: Randy J. Dunn, State Superintendent of Education
       Mark Kolaz, Assistant Superintendent of Operations

Agenda Topics: Quarterly Status Report of Progress on FY04 Annual Financial and Compliance Audit Findings


Staff Contact: Deborah Scheiter, Internal Audit

Purpose of Agenda Items
To provide the Board with information regarding the progress made on resolving the FY04 Annual Financial and Compliance Audit findings.

Expected Outcome(s) of Agenda Items
The Board will receive a quarterly update of progress made on resolving the findings resulting from the FY04 Annual Financial and Compliance audit performed by the Auditor General.
Finding #: 04-1

Description: **Impact of Organizational Structure.** The Agency’s decentralized organizational structure led to the failure to properly communicate essential financial reporting information. The organizational structure was not conducive to providing management with information necessary to determine the financial reporting impact of all events and transactions affecting the Agency. (There were 11 separate instances of lack of communication or controls drawn from the other audit findings to support this finding.)

Prior year finding (if applicable): 03-1, 02-1

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency administration will review policies and procedures in an effort to ensure that more effective communication exists among divisions to provide management with the necessary information.

Status

1st Quarter, September 2005:

After reviewing the issues noted in the finding, the new Agency administration implemented the following processes to improve the flow and sharing of information critical to the Agency’s financial reporting, programs, and operations:

- General Counsel has implemented a new procedure for sending the status of litigation to the Fiscal Division for inclusion in the footnotes to the financial statements. The status of all litigation for a fiscal year will be sent to the Fiscal Division within one month after the close of each fiscal year. The FY05 status of litigation was sent to the Fiscal Division in July 2005.
- In May 2005, the Fiscal Division met with the divisions responsible for programs that have accounts receivables and discussed the importance of communicating information regarding receivables fully and accurately so that financial reporting is complete and accurate. Annual follow-up communications will continue.
• Governmental Relations has implemented a new process for informing all divisions and employees of all education-related enacted legislation. Regular legislative updates of all newly-signed education-related bills are sent electronically to each ISBE employee. The updates contain brief summaries of the legislation and specific divisions that may be affected are highlighted. Everyone across the Agency now has timely information about legislation which may affect financial reporting and Agency programs and operations. The new process began in June 2005.

• The Agency’s main accounting information system (MIDAS) and other subsidiary information systems provide the data that supports the preparation of the financial statements. These systems are continually enhanced and all requests from the Fiscal or Budget and Financial Management divisions for any new reports or reporting capabilities are fulfilled. Data Systems will continue to develop any reports requested by the fiscal area divisions.

• In March 2005 to better facilitate communication about staffing changes, Human Resources implemented a new practice of regularly notifying all employees of recent new hires, promotions, transfers, etc.

• To ensure that effective supervision of Agency activities occurs on a timely basis, in FY05, the Administration implemented monthly senior management meetings and quarterly division meetings.
Finding #: 04-2

Description: Lack of Controls over Accounts Receivable Reporting and Recordkeeping. The Agency did not have sufficient controls over its accounts receivable reporting and recordkeeping. Several deficiencies in controls and reporting errors related to Fund 569, the School Technology Revolving Loan Fund, were noted. Various other funds also had reporting errors.

Prior year finding (if applicable): 03-2, 02-7

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

ISBE will improve its internal procedures to ensure that accounts receivable will be reported as required by the Statewide Accounting Management System (SAMS). During the fourth quarter of FY04, the transition to a new accounts receivable system began. Adjustments to the reporting capabilities of the software are being completed.

Status

1st Quarter, September 2005:

- It is the agency’s belief that all accounts receivable have been reported correctly at June 30, 2005. The agency discontinued use of the automated accounts receivable system during the third quarter of FY05. The system purchased in FY04 was unable to provide data necessary for the accurate and timely filing of accounts receivable reports. This system was being used to account for the School Technology Revolving Loan Program (569 fund) loans. During the third quarter of FY05, loan receivable data was input into an excel spreadsheet, based on a review of every outstanding loan file. The spreadsheet includes the loan number, school name and quarterly principal and interest amounts due. Receipts are calculated from cash receipt listing each quarter. Adjustments were made to the reported balance of the 569 fund to record the correct loan balances after the review of every loan file.

- In May 2005, the Fiscal Division met with the divisions responsible for programs that have accounts receivables and discussed the importance of communicating
information regarding receivables fully and accurately so that financial reporting is complete and accurate. Annual follow-up communications will continue.
Finding #: 04-3

Description: Failure to Reconcile Cash Receipts and Cash Balances. The Agency did not properly perform reconciliations of cash receipts or cash balances. Cash in-transit and cash on-hand were not appropriately included.

Prior year finding (if applicable): 03-3, 02-6

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

The Agency is continually improving its process of reconciling cash receipts as required by the Statewide Accounting Management System (SAMS). The Agency will review SAMS procedures and Agency processes to ensure that cash receipts are treated appropriately.

Status

1st Quarter, September 2005:

- The Agency identified cash in-transit at June 30, 2005 based on the cash receipts listings deposited in FY06.
Finding #: 04-4

Description: Inadequate Control over the GAAP and Financial Reporting Process. The Agency did not have adequate controls over or devote proper time and resources to the GAAP and financial reporting process. Financial statements and schedules were not timely, errors were noted, and employees were not adequately trained to prepare the GAAP packages and financial statements.

Prior year finding (if applicable): 03-4, 02-2

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- Final financial statements cannot be completed until all adjustments are received from the Comptroller’s Office and auditors. The Agency received the final adjustments on December 17, 2004 and completed the financial statements December 20, 2004, the next business day.
- Although the Comptroller sent out instructions for the SCO-563, some of the complexities of completing the form were later found to be beyond the scope of the guidance, necessitating subsequent changes to entries in the GAAP package. The Agency also had to correct entries that the Comptroller’s Office made on their review of the GAAP packages.
- Agencies employees attended all training provided by the Comptroller’s Office and participated in the GAAP round table discussions. In addition, SAMS instructions for completion of the GAAP forms are complex. All forms were completed with the best available information, and as most packages are due before the fiscal year is over, corrections and revisions are unavoidable.

Status

1st Quarter, September 2005:

- Agency staff is in the course of completing the GAAP and Financial Reporting process for FY05. To date, all GAAP project deadlines have been met.
- Agency staff attended the FY05 GAAP training as it was offered by the Office of the Comptroller.
FY04 Annual Financial and Compliance Audit by the Auditor General

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Finding #: 04-5

Description: Lack of Controls over the General Education Development (GED) program. (The Agency failed to ensure the implementation and maintenance of strong internal controls over the GED testing process and the accounting for program fees.)

Prior year finding (if applicable): None

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

The Agency agreed to develop and implement policies and procedures to establish controls over the GED testing process and the collection and accounting of all application fees. To be implemented for the FY05 financial reporting period.

Status

1st Quarter, September 2005:

For FY05, the Agency has implemented the following:

- As of July 2005, the GED program and the associated funds have been transferred to the Illinois Community College Board (ICCB). The Agency met with ICCB to assist in the transition and will continue to offer assistance and information as requested.
- While ISBE agrees that controls could be improved, it should be noted that the Agency did have access to the list of applicants and their associated data through a contracted firm, Turn-Key Solutions who maintain the Illinois GED database. The Cook County GED process also includes contracts with ROE 51 as the fiscal agent and the International Bank of Chicago. The Agency reviewed the risks inherent in the process and determined that the risk of funds being lost or misappropriated is minimal. The Agency will continue to attempt to accurately classify the revenues. As the program was slated to transition to the Illinois Community College Board a few months after receipt of the finding, contract amendments to incorporate substantial added changes and program expense to resolve the finding were postponed for FY05.
Finding #: 04-6

Description: Noncompliance with Mandates. The Agency did not comply with the following duties mandated by State Statute:

- Did not initiate and maintain Governor’s Recognition Program.
- Did not develop a model curriculum for the reduction of self-destructive behavior.
- Did not make computer literacy grants available to qualifying school districts.
- Did not prepare or make available all provisions of family life instruction courses and evaluation procedures.
- Did not establish a State-level Committee of Cooperative Services.
- Did not prepare fiscal notes timely.
- Did not timely review, approve, and process all Safety Survey Reports and amendments.
- Did not timely issue a Certificate of Approval for the Expenditure of Fire Prevention and Safety Funds for 2 of 25 school tested.
- Did not adequately assess the performance progress for Reading Improvement Block Grant programs.
- Did not maintain certain documentation for the Work Experience and Career Exploration Program (WECEP).
- Did not notify school districts of a link on the Agency’s website to homework assistance websites.
- Did not compile data by district on attacks on school personnel.
- Did not maintain documentation that the behavioral intervention guidelines were reviewed in the last three years.

Prior year finding (if applicable): Related non-compliance with mandates findings, 03-6, 02-13, 00-9.

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency will review the Governor’s Recognition Program statute for possible legislative repeal or amendment.
- The Agency will review the Model Curriculum for the Reduction of Self-destructive Behavior statute for possible legislative repeal or amendment.
• The Agency introduced legislation to repeal the Computer Literacy Grant statute and will follow its progress.
• The Agency will make available the Alternatives to Abortion courses and procedures as required by the statute.
• The Agency will review the State-level Committee of Cooperative Services destructive Behavior statute for possible legislative repeal or amendment.
• The Agency will review its processes and procedures and continue to strive to meet the statutory requirements and priority legislative requests.
• The Agency will continue to prioritize and review the Safety Surveys and amendments in an effort to meet the mandate and the emergency needs of districts.
• The Agency will continue to prioritize and process Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds in an effort to meet the mandates and the emergency needs of school districts.
• The Agency will implement the approved assessment methodology for the Reading Improvement Block grant and improve controls over the maintenance of the reports and records.
• The Agency has included in the FY05 WECEP Continuation Guidelines a requirement that subrecipients submit documentation of work experience and coursework. The division has also implemented controls to ensure that program documentation is appropriately maintained.
• The Agency has notified districts of the existence and location of the Homework Assistance website.
• The Agency will consult with the State Police to develop a methodology whereby the data can be presented in the required “compiled by district” format. If an agreeable methodology cannot be implemented, the Agency will seek to amend the legislation.
• The Individuals with Disabilities Education Act has been reauthorized and the Agency has now presented the Illinois State Advisory Council with the guidelines for review and revisions.

Status

1st Quarter, September 2005:

• The Agency has reviewed the Governor’s Recognition Program statute for possible legislative repeal or amendment, and will consider action in an upcoming Legislative session.
• The Agency has reviewed the Model Curriculum for the Reduction of Self-destructive Behavior statute for possible legislative repeal or amendment, and will consider action in an upcoming legislative session.
• The Agency introduced legislation to repeal the Computer Literacy Grant statute and continues to monitor its progress.
• The Agency posted the family life instruction and evaluation on its website.
• The Agency has reviewed the State-level Committee of Cooperative Services statute for possible legislative repeal or amendment, and will consider action in an upcoming legislative session.

• For FY06, the Agency has added another documentation step to the fiscal note review process to more fully log the process.

• During FY05, Agency staff substantially reduced the backlog and continues to prioritize and review the Safety Surveys and amendments in an effort to meet the mandate and the emergency needs of districts.

• During FY05, Agency staff substantially reduced the backlog and continues to prioritize and process Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds in an effort to meet the mandates and the emergency needs of school districts.

• In FY05 the Agency implemented improved controls and processes for the Reading Improvement Block grant programs. In addition, the approved assessment methodology has been implemented for FY06.

• The Agency has included in the FY05 WECEP Continuation Guidelines a requirement that subrecipients submit documentation of work experience and coursework. In FY05, the Career Development and Preparation Division has also implemented controls to ensure that program documentation is appropriately maintained.

• The Agency notified districts of the existence and location of the Homework Assistance website through the Superintendent’s Bulletin in FY05.

• In FY05, the Agency and the State Police began a joint project to enhance the data systems that report this and other common data. The estimated completion date for the enhanced systems is late fall of 2005.

• The Individuals with Disabilities Education Act was reauthorized and the Agency presented the Illinois State Advisory Council with the guidelines for review and revisions in FY05. The Advisory Council is currently reviewing the guidelines. The Agency will document the reviewed and final guidelines.
FY04 Annual Financial and Compliance Audit by the Auditor General

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Finding #: 04-7

Description: Noncompliance with Reporting Requirements. (ISBE did not properly report all information as required by the School Code to the Governor and General Assembly.

- The Agency failed to report all requirements of the Vocational Education Act.
- The Agency did not submit timely the Teacher Supply and Demand Report.

Prior year finding (if applicable): Related reporting finding 03-7

- The Agency did not include certain information relating to school recognition in the Annual Statistical Report. (Corrected for FY04.)
- The Agency did not maintain proper documentation pertaining to the submission of the Latch Key Report. (Corrected for FY04.)

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency submitted a separate FY04 Career and Technical Education Report to the Governor, the Legislature, and others on Jan. 12, 2005. The report incorporates all requirements of 105 ILCS 435/2e.
- The Preliminary 2004 Educator Supply and Demand Report was transmitted prior to the deadline and documentation exists showing the transmission. The Agency will update information in the report as more data becomes available. The division responsible for compiling the report will work with the Certification division (who is responsible for the pipeline data), to ensure that data is collected on a more timely basis.

Status

1st Quarter, September 2005:

- The Agency submitted a separate FY04 Career and Technical Education Report to the Governor, the Legislature, and others on Jan. 12, 2005. The report incorporates all requirements of 105 ILCS 435/2e.
- The 2004 update and final report for Teacher Supply and Demand reporting was submitted to the General Assembly in May, 2005. (The preliminary report
submitted in December, 2004 was updated with the missing pipeline dateline and submitted in May, 2005.)
Finding #: 04-8

Description: Lack of Controls over Receipts Processing. The Agency did not maintain proper controls over miscellaneous receipts processing. The Fiscal Procedures User’s Manual set an incorrect cut-off time for receipts, some remittances and deposits were untimely, and there were missing signature authorizations and dates.

Prior year finding (if applicable): None

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

ISBE will continue to strengthen its internal controls over receipt processing.

Status

1st Quarter, September 2005:

In FY05, the Agency updated the Fiscal Procedures User’s Manual to reflect the correct times and continues to enhance its internal controls over receipt processing.
Finding #: 04-9

Description: Lack of Controls over Contract Requirements. ISBE did not maintain proper controls over contract requirements. Two contracts were not reduced to writing before services began, one contract routing record could not be located, and two instances of missing dates were noted.

Prior year finding (if applicable): 03-8, 02-10

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

ISBE will continue to enforce its controls to ensure compliance with all contracting rules, regulations and statutory requirements.

Status

1st Quarter, September 2005:

In FY05, contract procedures as identified in the Agency’s Fiscal Procedures User’s Manual were reviewed and updated as necessary. The Agency staff is working to keep accurate and up-to-date records for every contract on file by implementation of a file checklist.
Finding #: 04-10

**Description:** *Inaccurate Agency Fee Imposition Report Form.* ISBE did not properly report the fees collected on the 2004 Agency Fee Imposition Report Form submitted to the Office of the State Comptroller. The School Bus Driver Fees were not properly classified.

Prior year finding (if applicable): 03-10, 02-8

ISBE response: (Agree, Partially Agree, Disagree): Agree.

**ISBE Corrective Action Plan (including expected implementation date):** The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

ISBE will ensure that the Agency Fee Imposition information is accurately reported. The 2004 report was revised and sent to the Comptroller. The adjustment was for $264, which the Agency believes to be an immaterial amount.

**Status**

1st Quarter, September 2005:

For FY05, there were no school bus driver fees. All other fees were reported in a timely manner.
Finding #: 04-11

Description: Inadequate Oversight of the Regional Offices of Education. ISBE did not provide adequate oversight of the ROE’s and the ISC’s.

- ISBE did not include language identifying allowable and unallowable expenditures in some grant application materials. ISBE did not properly report all information as required by the School Code to the Governor and General Assembly.
- The annual record reviews of the ROE’s/ISC’s were not dated and the Regional Improvement Plan activity statements were not reviewed to ensure that the individual responsible for conducting each activity was identified.

Prior year finding (if applicable): Related (ROE/ISC oversight) findings 03-11, 02-11. The previous findings are not specifically identical to the current finding and all have been satisfactorily resolved.

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency will develop guidelines for allowable and unallowable costs and incorporate them into future ROE/ISC grant application materials. The Agency will also disseminate additional guidance on allowable and unallowable costs during FY05.
- The Agency has improved the annual record review process to include dates and an additional review step to ensure that individuals responsible for Regional Improvement Plan activities are identified.

Status

1st Quarter, September 2005:

- The Agency developed and disseminated guidance on allowable and unallowable costs for Regional Safe Schools Program in May 2005. The guidance was also posted on the ISBE website in May 2005 and the ROE’s were given notice of the posting.
The review checklist used for the record review was revised for FY05 and future reviews and now includes date and the abovementioned additional step.
Finding #: 04-12

Description: Failure to Ensure Premium List Certifications. ISBE did not comply with a provision of the Agricultural Fair Act. Vocational Agricultural Section Fairs are organized and conducted under the supervision of ISBE.

Prior year finding (if applicable): 03-12, 02-12.

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- As the program has been jointly administered with the Department of Agriculture, which carries out most of the program’s functions, both Agencies have agreed that it would be appropriate for the Dept. of Agriculture to have responsibility for the program. Legislation was introduced to amend the statute governing the program and changes to the Illinois Administrative Rules were adopted in August, 2004. ISBE will follow the progress of the legislation and continue to work with the Dept. of Agriculture to ensure that all issues are resolved.

Status

1st Quarter, September 2005:

- The Illinois Administrative Rules governing the program were revised and adopted in August, 2004.
- PA 94-0261, containing the amendment to the Agricultural Fair Act was signed into law in July, 2005. The amendment removes all responsibility for Vocational Agricultural Section Fairs from the Agency.
Finding #: 04-13

Description:  Failure to Conduct Performance Appraisals in a Timely Manner. ISBE did not complete performance appraisals in accordance with the ISBE Human Resources Manual.

Prior year finding (if applicable): None

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency will review its processes to ensure that timely completion of performance evaluations is being achieved.

Status

1st Quarter, September 2005:

- In October of FY05, the Agency developed and implemented the following processes to improve the timeliness of performance evaluations:
  
  o System enhancements/streamlining which included an electronic 2 month notification to Division Administrators responsible for completing the evaluation.
  o Monthly monitoring of notices and reminders sent to applicable Division Administrators and Senior Management.
  o Currently reviewing all phases of the performance evaluation system which includes updating the evaluation form with a clearer rating method to aid in completion, thereby increasing timeliness.
Finding #: 04-14

Description: Inaccurate W-2 Reporting. ISBE did not properly include the reimbursement of moving expenses in its 2003 Form W-2 reporting.

Prior year finding (if applicable): None

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions to correct the deficiencies noted in the finding:

- The Agency will implement the necessary controls to ensure accurate W-2 reporting.

Status

1st Quarter, September 2005:

- In May, 2005, the Agency developed and implemented additional review procedures to ensure the accuracy of W-2 reporting. The procedures include a follow-up process with the Comptroller’s Office to further ensure accuracy and agreement between the two agencies.
Finding #: 04-15

Description: Follow-up to Financial and Management Audit of the Teachers’ Academy for Math and Sciences. In 2003, the Auditor General released an audit of the Teachers’ Academy for Mathematics and Sciences (TAMS). Seven of the recommendations were directed to ISBE to improve ISBE monitoring of taxpayer funds that were provided to the Academy. Six of the recommendations have not been fully implemented.

- ISBE should develop formal grant agreement with TAMS.
- ISBE should provide documented outcome goals and monitor performance.
- ISBE should develop a system of monitoring TAMS performance.
- ISBE should develop rules that identify allowable and unallowable costs and follow up on questioned expenditures.
- ISBE should monitor the use of interest income and recover any funds that were used for non-grant purposes.
- ISBE should develop criteria that return fixed assets to the State in the event funding is discontinued.

Prior year finding (if applicable): None

ISBE response: (Agree, Partially Agree, Disagree): Agree.

ISBE Corrective Action Plan (including expected implementation date): The Agency has taken, or will take, the following actions:

- The Agency will continue to implement the recommendations as agreed to in the previous Agency responses to the TAMS audit.

Status

1st Quarter, September 2005:

- ISBE has in place a formal agreement, including proposal, goals, and budgets with TAMS for 2005 funding.
- The goals and objectives of the proposal were reviewed and approved by ISBE for 2005 funds. In addition, TAMS submitted an end of the year report for FY05 in August of 2005.
- ISBE consultants provide technical assistance to TAMS, review, and either approve or follow-up on reported performance. In addition, External Assurance conducted an on-site review of TAMS in June 2005.
• ISBE does not incorporate technical expenditure guidelines in administrative rules, but rather includes them in grant agreements or disseminates them directly to subrecipients. ISBE disseminated specific guidance on allowable and unallowable costs to TAMS in May 2005.
• In April 2005, ISBE reconfirmed its request to the Attorney General for an opinion on the uses for interest earned with State Funds.
• In April 2005, ISBE reconfirmed its request to the Attorney General for an opinion on remedies for disposition of fixed assets purchased with State Funds.
FY 04
Financial & Compliance Audit Findings
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1  (Impact of Organizational Structure)

The Agency’s decentralized organizational structure led to the failure to properly communicate essential financial reporting information such as accounts and loans receivable, and grant program details between the financial reporting division and other divisions. The fragmented organizational structure was not conducive to providing management with the information necessary to determine the financial reporting impact of all events and transactions affecting the Agency.

Throughout the audit process, we noted several instances where the Agency’s organizational structure directly impacted the Agency’s ability to communicate and process essential information. Examples of those instances include:

- The failure by one division to properly communicate the status of litigation affecting the Agency to another division for reporting in the footnotes to the financial statements.

- The failure by one division to properly communicate to another division the repeal of legislation affecting the Agency’s financial transactions. Receipts were deposited into funds subsequent to the repeal of the enabling legislation.

- The failure by management to properly communicate to the division responsible for payroll reporting, the information required to be provided to the Comptroller’s Office to ensure accurate Form W-2 reporting.

- The failure by management to ensure controls were in place to properly administer a program. Management did not ensure the program division and the Fiscal Services Division understood the duties each division was responsible for performing; therefore, certain responsibilities were overlooked. In addition, no one possessed a complete understanding of the program and its fiscal administration.

- The failure by one division to communicate receipt details to the division responsible for financial reporting.

- The failure by a program division to timely communicate to the division responsible for quarterly accounts receivable reporting the existence of receivables.

- The failure by the divisions responsible for administering federal and State programs and the division responsible for financial reporting to communicate new programs or those that have ended.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1  (Impact of Organizational Structure – Continued)

- The failure by management to ensure the Agency’s various computer systems and the divisions responsible for maintaining those systems are capable of providing the division responsible for financial reporting the data necessary to timely and accurately meet State reporting requirements.

- The failure to assign a central area the responsibility for monitoring new mandates affecting the Agency. A central area responsible for the communication of new mandate responsibilities could also assist in assessing risk and determining whether sufficient resources are available to ensure compliance.

- The failure to track the changes in individual responsibilities and the location of records during staff reductions, staffing changes and physical moves during the fiscal year.

- The failure by management to ensure all supervisors were effectively supervising Agency activities and that the supervision was taking place on a timely basis.

Strong internal controls require an organizational structure facilitating the communication of essential information among divisions, thereby enhancing the quality and effectiveness of management and the financial reporting process.

Agency management noted several of the underlying issues in this finding have been addressed in other findings. They acknowledged some instances of error; however, they stated the most significant issues were related to low staffing levels and loss of institutional knowledge and key personnel during fiscal year 2004.

The decentralized organizational structure led to several financial reporting errors, noncompliance with mandated duties, the inability to determine the individuals currently or previously responsible for performing duties, the inability to locate records, and many other inefficiencies.

In addition, during the prior audit period, management failed to delegate responsibility for preparing the Quarterly Accounts Receivable Reports for Fund 569 during the third and fourth quarters following the retirement of the individual previously responsible for that task. During the current audit, we noted management delegated responsibility for preparing the Quarterly Accounts Receivable Reports for Fund 569. (Finding Code No. 04-1, 03-1, 02-1)
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1  (Impact of Organizational Structure – Continued)

RECOMMENDATION:

We recommend the Agency establish policies and procedures to ensure effective communication among all divisions to provide management with the information necessary to evaluate the financial reporting impact of all events and transactions affecting the Agency.

AGENCY RESPONSE:

The Agency agrees with the recommendation and the new Agency administration will review policies and procedures in an effort to ensure that more effective communication exists among divisions to provide management with the necessary information.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-2  (Lack of Controls over Accounts Receivable Reporting and Recordkeeping)

The Agency did not have sufficient controls over its accounts receivable reporting and recordkeeping. During the audit period, the Agency was required to file quarterly accounts receivable reports with the Comptroller for Funds 130, 410, 544, 567, 569, and 605. At June 30, 2004, accounts receivable for these funds totaled $17.2 million on the Agency’s financial statements. During our testing we noted the following:

• All receivables information was inaccurately reported on the June 30, 2004 Accounts Receivable Activity Report (C-97) and the Aging of Total Gross Receivables Report (C-98) in the School Technology Revolving Loan Program Fund (Fund 569); therefore, the Agency understated loans receivable on the June 30, 2004 generally accepted accounting principles (GAAP) Package by $353 thousand (3.2%). An adjusting entry was required to increase loans receivable to $11.007 million.

• The Agency did not provide detailed supporting documentation to facilitate compliance testing of the September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004 Fund 569 Reports C-97 and C-98. Summarized documentation was provided and agreed to the Management Information Data Accounting System (MIDAS) to ensure amounts reported in the GAAP Package were materially correct.

• No reconciliations were performed between the Fund 569 loan system and MIDAS during the fiscal year. The Agency provided a reconciliation for the June 30, 2004 Report C-97 subsequent to auditor inquiry; however, unreconcilable differences were noted in the reconciliation. The Agency’s GAAP Packages and financial statements were prepared from MIDAS data.

• A new loan system was implemented during the fiscal year to maintain Fund 569 loans. The new loan system did not provide all essential loan information, including payment history and amortization schedules. In addition, the data reported by the new system did not agree to the old system. The Agency did not update the new loan system to include the loan payment/amortization schedules for loans made prior to the implementation of the system.

• The interest and principal in the new loan system was inconsistent with amounts reported in the system used for active loans made prior to the implementation of the new system for Fund 569 loans. The loan agreement requires payments be made based on the payment schedule at the time the loan was approved.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES  

FINDING 04-2  (Lack of Controls over Accounts Receivable Reporting and Recordkeeping – Continued)  

- The amortization schedule in 1 of 25 (4%) loans tested in Fund 569 was revised due to a lump sum payment, leading to a violation of the loan agreement. The loan agreement requires payments be made based on the amortization schedule at the time the loan was approved and does not allow for a change to that schedule.  

- The Agency did not attempt to collect a payment, nor assess late fees, on 1 of 25 (4%) loans tested in Fund 569. A past due balance of $3,507 was one month late at June 30, 2004. The loan agreement required a 5% late fee assessment on the past due amount totaling $175.  

- The Agency incorrectly reported short-term and long-term receivables in Fund 569 on the June 30, 2004 Report C-97. In 3 of 25 (12%) loans sampled, the long-term receivable was understated by $6 thousand or 0.007%.  

- The Agency failed to ensure adequate training for operation of the new Fund 569 loan system.  

- The Agency administered the Illinois Virtual High School Program in the School Technology Revolving Fund (Fund 544) prior to fiscal year 2004, but failed to prepare quarterly accounts receivable reports or to include the receivables in financial reporting. In addition, the Agency failed to maintain documentation to support the beginning balance of accounts receivable for the September 30, 2003 Report C-97. The program was transferred to the Illinois Math and Science Academy on July 1, 2003; however, all receivables due the Agency at June 30, 2003 remained a receivable to be collected by the Agency.  

- The Agency did not report the correct number of accounts for gross receivables on the September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004 Reports C-97 in the Charter Schools Revolving Loan Fund (Fund 567). The number of accounts, reported as 2, should have been reported as 3, an understatement of 1 (33%). An account reported as uncollectible was not included in the number of gross receivable accounts.  

- The Agency incorrectly reported short-term and long-term receivables in the Temporary Relocation Expenses Revolving Grant Fund (Fund 605) on the June 30, 2004 Report C-97. The long-term receivable was overstated and the short-term receivable understated by $15 thousand.  

- The Agency understated interest receivable on the June 30, 2004 Report C-97 in the School District Financial Assistance Fund (Fund 130) by $1 thousand (.02%).
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-2  (Lack of Controls over Accounts Receivable Reporting and Recordkeeping – Continued)

- A thorough supervisory review was not performed for accounts receivable reporting. In addition, no Agency-wide system of controls was established to ensure the reporting of all receivables or to ensure the accuracy of the information reported.

Chapter 26 of the Statewide Accounting Management System (SAMS) Manual provides the procedures for State agencies to follow to meet receivables reporting requirements. These procedures include information for determining and reporting gross receivables, net receivables, activity, interest, aging, and complete instructions for proper preparation of the quarterly report forms. Prudent business practices require timely reconciliations with accounting data to ensure the integrity of information reported, and the proper training and placement of personnel to ensure smooth and efficient operations. Strong internal and management controls require clear and timely communication of employee responsibilities, and effective collaboration between divisions to ensure the accurate reporting of all Agency receivables.

Agency personnel stated issues relating to Fund 569 were due to the transition of data to a new loan system and the responsibilities for maintenance and reporting of Fund 569 receivables to Fiscal Services during the fiscal year. All other matters were attributed to clerical errors.

Lack of controls over accounts receivable reporting and recordkeeping could lead to the failure to properly collect amounts owed to the State and inaccuracies in Agency and statewide financial statement reporting.

In addition, during the prior audit period, the division responsible for determining and maintaining the receivable in Fund 410 failed to prepare Comptroller quarterly accounts receivable reports for three quarters and the Agency did not report the proper amount of receivables on the Fund 410 Reports C-97 and C-98 at June 30, 2003; therefore, the amount reported on the GAAP Package was understated by $54 thousand (44%), requiring an adjusting entry to increase receivables. Also during the prior audit period, Agency management failed to delegate responsibility for preparing the fiscal year 2003 third and fourth quarter Fund 569 Accounts Receivable Reports, and failed to report $45 thousand in estimated uncollectible receivables in Fund 567 on the fiscal year 2003 quarterly accounts receivable reports, resulting in an adjusting entry to reduce loans receivable to $13 thousand. During the current audit period, the Comptroller’s quarterly accounts receivable report for Fund 410 were prepared for all quarters, the Agency reported the proper amount of receivables in the Fund 410 Reports C-97 and C-98 for all quarters and properly reported receivables in the GAAP Package for Fund 410. Furthermore, Agency management delegated responsibility for preparing the Fund 569 Accounts Receivable Reports, and the Agency properly reported the $45 thousand in estimated uncollectible receivables in Fund 567 in the fiscal year 2004 reports. (Finding Code No. 04-2, 03-2, 02-7)
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-2  (Lack of Controls over Accounts Receivable Reporting and Recordkeeping – Continued)

RECOMMENDATION:

We recommend the Agency establish and implement formal policies and procedures to ensure accounts receivable are reported in accordance with SAMS procedures, proper records are maintained, and a supervisory review is performed of the Reports C-97 and C-98 prior to submission to the Comptroller’s Office. We further recommend the Agency implement a system encouraging collaboration between divisions to ensure the accurate reporting of all receivables for compliance and financial reporting purposes.

AGENCY RESPONSE:

The Agency agrees to improve its internal procedures to ensure that accounts receivable will be reported as required by SAMS. During the fourth quarter of FY04, the transition to a new accounts receivable system began. Adjustments to the reporting capabilities of the software are being completed.
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FINDING 04-3  (Failure to Reconcile Cash Receipts and Cash Balances)

The Agency did not properly perform reconciliations of cash receipts or cash balances. During our testing of reconciliations, we noted the following:

- The Agency did not reconcile amounts in the Management Information Database Accounting System (MIDAS) and the State Comptroller’s Cash Report (SB05) to the proper fund balance at June 30, 2004. The fund balance reconciliations for Funds 016, 159, and 161 did not include cash in-transit totaling $10,198, $232, and $2,602, respectively. The fund balance reconciliation for Fund 569 did not include cash on-hand totaling $1,187,714.

- The Agency did not include cash on-hand in Fund 569 totaling $1,187,714 or cash in-transit in Fund 161 totaling $2,602 on the reconciliation between MIDAS and the State Comptroller’s Monthly Revenue Status Report (SB04).

- The Agency lacks formal policies and procedures to provide guidance for proper reconciliations.

Statewide Accounting Management System (SAMS) Procedure 25.40.20 (page 1 of 4) requires the Agency to perform a monthly reconciliation of receipt account balances and notify the State Comptroller’s Office of any unreconcilable differences. SAMS Procedure 09.40.30 (page 4 of 5) requires the Agency to perform a monthly reconciliation of cash balances and notify the State Comptroller’s Office of any discrepancies. Suggested reconciliation methods are provided by SAMS. In addition, prudent business practice requires policies and procedures and proper internal controls be established to ensure the accuracy and reliability of accounting data.

Agency personnel stated they do not believe cash in transit or cash in hand should be acknowledged as receipts or included as reconciling items.

Failure to properly reconcile and review cash receipt and cash balance reconciliations could lead to unresolved differences between Agency and Comptroller records and to inaccurate financial reporting.

In addition, during the prior audit period, the Agency did not adjust or reconcile amounts in MIDAS to agree to the Agency’s previous accounting system, did not perform timely reviews of cash balance and cash receipt reconciliations, and did not identify or adjust discrepancies on the June 30, 2003 receipt reconciliations for two funds. During the current audit, we noted the Agency posted adjustments to MIDAS to reconcile to Comptroller records, performed timely reviews of cash balance and cash receipt reconciliations, and identified and adjusted discrepancies on the June 30, 2003 receipt reconciliations. (Finding Code No. 04-3, 03-3, 02-6)
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-3   (Failure to Reconcile Cash Receipts and Cash Balances – Continued)

RECOMMENDATION:

We recommend the Agency ensure cash receipt and cash balance reconciliations are performed in accordance with SAMS procedures and a thorough and timely supervisory review of the reconciliations is performed.

AGENCY RESPONSE:

The Agency agrees with the recommendation and is continually improving the process of reconciling cash receipts as required by SAMS. The Agency will review SAMS procedures and Agency processes to ensure that cash receipts are treated appropriately.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-4 (Inadequate Controls over GAAP and Financial Reporting Process)

The Agency did not maintain adequate controls over, nor did it devote the proper time or resources to the generally accepted accounting principle (GAAP) and financial reporting process. The Agency’s expenditures materially impact the State’s basic financial statements and the State’s Schedule of Expenditures of Federal Awards. In fiscal year 2004, the Agency’s expenditures totaled $7.2 billion, $1.7 billion of which were federal funds.

During our review of the GAAP and financial reporting process, we noted:

- Financial statements and footnotes were not prepared on a timely basis. Final financial statements and footnotes were not received until December 20, 2004, approximately one month subsequent to the November 15, 2004 financial statements submission deadline established by the Comptroller’s Office.

- A financial related schedule was not prepared on a timely basis. The final schedule for the financial audit and compliance examination report was not received until November 18, 2004.

- Several errors were noted in the GAAP Package review, necessitating many adjusting entries and revisions. These errors included incorrect Catalog of Federal Domestic Assistance (CFDA) numbers and program titles, receivables or liabilities in closed programs, and vague or incomplete explanations for variances and accounts with significant balances.

- Several errors were noted in the financial statement and footnote review, necessitating many revisions. These errors included incorrect future minimum lease payments under an operating lease in the Commitments and Contingencies footnote, an incorrect interest rate in the Capital Lease Obligations footnote, and the failure to disclose all claims against the Agency that are reasonably possible of loss in the Litigation footnote.

- Employees were not adequately trained to prepare the GAAP Packages and financial statements. The Agency required assistance from the Office of the Auditor General’s special assistant auditors for the preparation of the financial statements. Additionally, based on problems described above, it does not appear the Agency’s supervisory review is adequate.

Statewide Accounting Management System (SAMS) Procedure 27.10.10 establishes filing timelines for GAAP Reporting Packages and filing deadlines for GAAP basis financial statements. Specific GAAP Package filing deadlines are provided to the Agency in an annual letter from the Comptroller’s Office. The Agency received an extension from the Comptroller’s Office until September 10, 2004 on its General Revenue Fund and all federal funds' GAAP
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-4  (Inadequate Controls over GAAP and Financial Reporting Process - Continued)

Reporting Packages. No extension was obtained for submission of financial statements. SAMS Chapter 27 provides detailed guidance covering completion of each form required for GAAP reporting purposes and preparation of Agency financial statements. Strong management controls require employees to be adequately trained to perform their duties and the supervision of all fiscal related activities to ensure proper and timely financial reporting.

Agency officials stated the timelines for submitting GAAP Packages and financial statements are unrealistic in light of the cooperative effort required by the many parties involved and several levels of review required to ensure accurate financial reporting.

Failure to maintain adequate controls over the GAAP and financial reporting process led to the posting of 41 modified accrual basis adjusting journal entries, totaling $48.7 million, in debits and credits subsequent to the auditors’ receipt of the GAAP Packages. In addition, lack of adequate controls led to the untimely submission of Agency accounting information to the Comptroller’s Office and the auditors. Untimely submission of financial information to the Comptroller’s Office could directly impact the Auditor General’s ability to opine on the statewide financial statements. (Finding Code No. 04-4, 03-4, 02-2)

RECOMMENDATION:

We recommend the Agency establish and maintain effective controls over the GAAP and financial reporting process to ensure the timely and accurate submission of financial data.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will continue to improve its controls for GAAP and financial reporting processes. The Agency has improved several timelines from the previous year and would like to state the following regarding the process:

- Final financial statements cannot be completed until all adjustments are received from both the Comptroller’s Office and the auditors. Those adjustments were received in their entirety on December 17, 2004. Final financial statements were completed the next business day (December 20, 2004).

- Although the Comptroller sent out instructions for the SCO-563, some of the complexities of completing the form were later found to be beyond the scope of the guidance, which necessitated subsequent changes to the original entries made on the GAAP packages. In addition, the Agency had to correct entries that the Comptroller’s Office made on their review of the GAAP packages.
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FINDING 04-4 (Inadequate Controls over GAAP and Financial Reporting Process – Continued)

- Agency employees attended all training provided by the Comptroller’s Office and participated in the GAAP round table discussions. In addition, SAMS instructions for the completion of GAAP forms were complex. All forms were completed with the best available information. As most packages are due before the fiscal year is over, corrections and revisions are unavoidable.
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-5  (Lack of Controls over the General Educational Development (GED) Program)

The Agency failed to ensure the implementation and maintenance of strong internal controls over the GED testing process and the accounting for program application fees. The Agency, acting as the Cook County Regional Superintendent, contracted with a third party Regional Office of Education (ROE) to serve as fiscal agent for the Cook County GED Testing Program. The Agency also contracted with a financial institution to review and approve GED applications, and to manage the collection of application fees. Approved application fees are deposited into a lockbox and credited to the State Treasury on behalf of the Agency. A Treasurer’s draft is provided to the Agency when receipts pass through the Treasurer’s clearing account. The third party ROE is responsible for providing the Agency with all information related to the operation of the testing program.

During our testing we noted the following:

- Receipts totaling $2,602 recorded by the State Treasurer on June 28, June 29, and June 30, 2004 for the S.B.E. GED Testing Fund (Fund 161) were reported as fiscal year 2005 receipts by the Agency. The receipts should have been reported as cash in transit in the June 30, 2004 Fund 161 generally accepted accounting principles (GAAP) Package.

- Fiscal Services did not receive notification of application fees collected by an outside source and deposited into the lockbox; therefore, the Agency was unable to ensure receipts deposited by the Treasurer into Fund 161 included all monies to which they were entitled.

- The Agency received a list of rejected GED applicants, but did not receive a list of approved applicants; therefore, the Agency was unable to determine which individuals had or had not been tested, or whether individuals tested paid the proper fee.

- The Agency was unable to determine whether deferred revenue should have been recorded in the Fund 161 GAAP Package and the financial statements.

- Controls were not in place over Cash Received Listings (CRLs) for Fund 161. The CRLs did not contain a Deposit Authorization Signature or a signature denoting acknowledgement the monies were received by the Central Cashier. No separate procedures were established to ensure these receipts, deposited into the State Treasury by a third party, were properly managed.
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FINDING 04-5  (Lack of Controls over the General Educational Development (GED) Program – Continued)

Statewide Accounting Management System (SAMS) Procedure 27.20.34 states the purpose of the Nonshared SAMS Funds Cash Reconciliation Form (SCO-534) is to reconcile fund balance per SAMS to the balance of cash on deposit with the Treasurer per agency records. All activities during the fiscal year, which have not been recorded in SAMS are required to be identified on the SCO-534. In addition, strong internal and management controls require Agency personnel to obtain all data necessary to fulfill the Agency’s fiduciary responsibilities.

Agency personnel stated any errors or possible control weaknesses were caused by oversight.

Lack of controls over the GED testing process and the accounting of application fees could lead to the failure to collect or properly record all amounts due the State and inaccuracies in Agency and statewide financial reporting. (Finding Code No. 04-5)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to establish controls over the GED testing process and collection and accounting of all application fees.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will develop and implement processes and procedures to ensure that adequate controls are in place for the program.
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-6  (Noncompliance with Mandated Duties)

The Agency did not comply with duties mandated by State statute. We noted the following:

- The Agency did not initiate and maintain an annual Governor’s Recognition Program. The School Code (105 ILCS 5/2-3.92) requires the Agency to initiate and maintain an annual Governor’s Recognition Program for premier organizations meeting or exceeding established criteria for a Drug-Free Illinois. Agency personnel attributed the failure to initiate this program to lack of funding and insufficient staff and resources; however, Agency personnel also indicated no funding was requested to fulfill the mandate.

- The Agency did not develop a model curriculum as required by State statute. The School Code (105 ILCS 5/27-23.2) requires the Agency to develop a model curriculum for reduction of self destructive behavior for use in grades 6 through 12 of public schools. Agency personnel stated that due to insufficient staff and resources, the Agency adopted a risk based approach to assessing the critical statutory provisions requiring implementation. This approach allows for non-critical mandates to be implemented as staff and resources become available.

- The Agency did not make computer literacy and high-tech competency grants available to qualifying school districts. The School Code (105 ILCS 5/2-3.43) requires the Agency to make available grants to qualifying school districts. The purpose of the grants is staff development, hardware, software, and teacher training necessary for the implementation of programs designed to achieve computer literacy and high-tech competency in which students and teachers in non-public schools located therein are entitled to equitable participation in the services and activities provided by the grants. Agency personnel stated the mandate is outdated and they have introduced legislation to repeal it.

- The Agency did not prepare or make available all provisions of family life instruction courses and evaluation procedures. The School Code (105 ILCS 5/27-9.2) requires the Agency to prepare and make available to local school districts courses of instruction and procedures for evaluating and measuring the effectiveness of the courses on family life, including the alternatives to abortion. In the prior year, the Agency did not include courses of instruction and procedures for the evaluation of the courses on the prevention, transmission, and spread of AIDS. In the current year, the Agency did make available these courses and procedures. The Agency stated the courses and evaluation procedures on the alternatives to abortion were not prepared or made available due to lack of funding and significant staff reductions; however, Agency personnel also indicated no funding was requested to fulfill the mandate.
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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

- A State-level Committee of Cooperative Services was not established. The School Code (105 ILCS 5/13B-35.10) requires the State Superintendent of Education to convene a State-level Committee of Cooperative Services and to approve the Committee’s by-laws and procedures. The School Code also requires the Committee of Cooperative Services to advise the State Superintendent of Education on the statewide development, implementation, and coordination of alternative learning opportunities programs. Agency personnel stated a committee could not be established because the mandate was not funded by the legislature; however, Agency personnel also indicated no funding was requested to fulfill the mandate.

- The Agency did not timely prepare 10 of 13 (77%) fiscal notes as requested by the General Assembly during the fiscal year. The notes were prepared between four and nine business days late. The Fiscal Note Act (25 ILCS 50/2) requires fiscal notes be prepared and furnished to the sponsor of the bill within 5 calendar days of the request. Agency personnel indicated some legislative requests involve complex issues requiring more preparation time than allowed by statute. In addition, they noted that due to the timing of the requests for fiscal notes and the relative urgency of each matter, as determined by the General Assembly, the preparation of certain fiscal notes takes precedence over others, regardless of due date.

- The Agency did not timely review, approve and process 8 of 15 (53%) Safety Survey Reports and 5 of 10 (50%) amendments of the Safety Survey Reports. The mandate does not stipulate a timeline for processing Safety Survey Reports or amendments. Approval of the Safety Survey Reports requires the Agency to work with schools, contractors, and architects; therefore, 180 days was determined to be an adequate amount of time to process the reports, which were between 22 and 164 days late. The amendments require the Agency to work with architects, engineers, and schools; therefore, 90 days was determined to be an adequate processing time period. The amendments were processed between 54 and 197 days late, including 3 that had not yet been processed. The School Code (105 ILCS 5/2-3.12) requires the State Superintendent of Education to approve or deny Safety Survey Reports including the recommendations to effectuate compliance and, if approved, issue a certificate of approval. In addition, prudent business practice requires the information be reviewed and processed timely. Agency personnel stated Agency downsizing and limited resources resulted in the untimely review, approval and processing of the Reports and amendments.
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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

- The Agency did not timely issue a Certificate of Approval for the Expenditure of Fire Prevention and Safety Funds for 2 of 25 (8%) schools tested. The mandate does not stipulate a timeline for processing the certificates. Approval of the certificates requires the Agency to work with architects, engineers, and schools; therefore, 90 days was determined to be an adequate processing time period. The certificates were processed 36 and 77 days late. The School Code (105 ILCS 5/17-2.11) requires the State Superintendent of Education to review the Regional Superintendent’s approval of each certified estimate of an architect and, when appropriate, to approve the architect’s estimate of the costs to be expended from fire and prevention safety funds for the replacement of or addition to a school building. In addition, prudent business practice requires the information be reviewed and processed timely. Agency personnel stated Agency downsizing and limited resources resulted in the untimely review and approval of the certifications.

- The Agency did not adequately assess the performance progress for Reading Improvement Block Grant Programs. No standard or baseline was used by the Agency to assess performance progress and the schools were not held accountable for performance in accordance with the approved method of assessment. In addition, they did not maintain the Performance Report for 1 of 25 (4%) school districts tested. The School Code (105 ILCS 5/2-3.51) requires that districts not demonstrating performance progress using an approved assessment method shall not be eligible for funding in the third or subsequent years until such progress is established. Good business practices require documents be maintained for a period of time sufficient to allow external auditors to evaluate the sufficiency of the supporting documentation and the Agency’s compliance with rules and regulations. Agency personnel stated the limited availability of personnel to properly administer the program within the established time constraints resulted in the inadequate assessment of performance progress for the Reading Improvement Block Grant Program.

- The Agency did not maintain documentation demonstrating teacher coordinators of the Work Experience and Career Exploration Program (WECEP) possessed the educational experience in 13 of 18 (72%) teacher coordinators tested or the work experience in 18 of 18 (100%) teacher coordinators tested. In addition, the Agency did not maintain documentation of the Request for Proposal Evaluation Forms for 3 of 5 (60%) school districts tested. The School Code (105 ILCS 5/2-3.66a) requires teacher coordinators to possess one year (2,000 hours) of employment in an occupation directly related to those career or employment areas with respect to which classroom instruction or cooperative work experience is to be provided under the program, and 6 semester hours of formal coursework in the area of organization and administration of work experience and career
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FINDING 04-6  (Noncompliance with Mandated Duties – Continued)

exploration education. Good business practices require documents be maintained for a period of time sufficient to allow external auditors to evaluate the sufficiency of the supporting documentation and the Agency’s compliance with rules and regulations. Agency personnel stated their interpretation of the mandate is that there is no requirement to collect or maintain supporting documentation substantiating the educational or work experience of the teacher coordinators. The missing Request for Proposal Evaluation Forms was attributed to misplacement. One form was found approximately 2½ months after it was requested, but appeared to be incomplete.

- The Agency did not notify school districts of a link on the Agency’s website to homework assistance websites. The School Code (105 ILCS 5/2-3.131) requires the Agency to notify all school districts about the availability of the information on the Agency’s web site. Agency personnel noted the statute was not effective until January 2004 and did not include a timeline for implementation. In addition, they stated no funding was provided for the additional required services; however, Agency personnel also indicated no funding was requested to fulfill the mandate.

- The Agency did not compile data by school district on attacks on school personnel. The School Code (105 ILCS 5/10-21.7) requires the Agency to compile information by school district on attacks on school personnel. Agency personnel stated the information was not compiled due to the fact that the Illinois Department of State Police does not send monthly reports to the Agency detailing this information. However, Agency personnel indicated they did not request this information from the Department of State Police.

- The Agency did not maintain documentation that the behavioral intervention guidelines were reviewed in the last three years. The School Code (105 ILCS 5/14-8.05) requires the Agency to review its behavioral intervention guidelines at least once every 3 years to determine continuing effectiveness and make any modifications deemed necessary. Agency personnel stated a review of the behavioral intervention guidelines was completed, but the review was not formally documented. To ensure alignment with anticipated federal guidelines, the Agency was waiting for reauthorization of the Individuals with Disabilities Education Act before formally revising the guidelines.

Failure to carry out mandated duties is noncompliance with statutory requirements. Failure to preserve State records increases the State’s exposure to legal and financial risks.

In addition, during the prior audit, the Agency did not implement a system of rewards to recognize and reward schools whose students perform at high levels or which demonstrate outstanding improvements. During the current audit, the Agency implemented this system of rewards. Also, during the prior audit, the Agency did not schedule a hearing within 60 days from
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-6  (Noncompliance with Mandated Duties – Continued)

the date the appeal on the suspension was taken for 2 of 3 (67%) Teaching Certification suspensions. During the current audit, no hearings were required to be scheduled. Lastly, during the prior audit, it was noted the Agency did not ensure the required number of members served on the Advisory Council on Bilingual Education. During the current audit, the required number of members served on the Advisory Council on Bilingual Education. (Finding Code No. 04-6, 03-6, 02-13, 00-9)

RECOMMENDATION:

We recommend the Agency comply with the above mandated duties.

AGENCY RESPONSE:

The Agency agrees with the recommendation that it should comply with statutory requirements and will implement the following for each of the respective points:

Governor’s Recognition Program –
The Agency will review this statute for possible legislative amendment or repeal.

Development of a Model Curriculum for Reduction of Self-destructive Behavior –
The Agency will review this statute for possible legislative amendment or repeal.

Computer Literacy Grants –
The Agency introduced legislation to repeal this statute in FY04 and will follow up on its progress through the legislative process.

Inclusion of Alternatives to Abortion in Family Life Instruction Courses and Evaluation Procedures –
The Agency will make available the Alternatives to Abortion courses and procedures as required by the Statute.

State Committee of Cooperative Services –
The Agency will review this statute for possible legislative amendment or repeal.

Fiscal Notes –
The Agency will review its processes and procedures and continue to strive to meet the statutory requirements and priority Legislative requests.
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FINDING 04-6  (Noncompliance with Mandated Duties – Continued)

Safety Survey Reports and Amendments –
The Agency will continue to prioritize and review the Safety Surveys and amendments in an
effort to meet the required mandates and emergency needs of school districts.

Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds –
The Agency will continue to prioritize and process Certificates of Approval for the Expenditure
of Fire Prevention and Safety Funds in an effort to meet the required mandates and emergency
needs of school districts.

Reading Improvement Block Grant Programs –
The Agency will implement the approved assessment methodology and improve controls over
the maintenance of reports and records.

Work Experience and Career Exploration Program (WECEP) –
The Agency has included in the FY05 WECEP Continuation Guidelines a requirement that
subrecipients submit documentation of work experience and coursework. The division has also
implemented controls to ensure that program documentation is appropriately maintained.

Homework Assistance Website –
The Agency has notified the districts of the existence of the Homework Assistance Website.

Compilation by District of Attacks on School Personnel –
The Agency will consult with the State Police to develop a methodology whereby the data can be
presented in the required “compiled by district” format. If an agreeable methodology cannot be
implemented, the Agency will seek to amend the legislation.

Behavior Intervention Guidelines Review –
The Individuals with Disabilities Education Act has been reauthorized and the Agency has now
presented the Illinois State Advisory Council with the guidelines for review and revision.
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-7  (Noncompliance with Reporting Requirements)

The Agency did not properly report all information as required by the School Code to the Governor and General Assembly. We noted the following:

- The Agency did not report to the Governor all requirements of the Vocational Education Act. The Vocational Education Act under the School Code (105 ILCS 435/2 (e)) requires the Agency to report annually, on or before January 14 each year, to the Governor a statement of the extent to which vocational education has been established and maintained in the State, the existing condition of vocational education, suggestions and recommendations with reference to the development of vocational education, recommendations on programs and policies to overcome sex bias and stereotyping in vocational education programming, and an assessment of the State’s progress in achieving such goals prepared by the State vocational education sex equity coordinator pursuant to the Federal Vocational Education Law. The statement must also include an itemization of the amounts of money received from Federal and State sources, and of the objects and purposes to which the respective items of these several amounts have been devoted. We noted the Agency’s report to the Governor did not include a statement of suggestions and recommendations with reference to the development of vocational education in the State and did not include a statement of recommendations on programs and policies to overcome sex bias and stereotyping in vocational education programming or an assessment of the State’s progress in achieving such goals. Agency personnel stated the statement of suggestions and recommendations regarding the development of vocational education in the State were not included in the report due to oversight. Agency personnel also stated they are seeking repeal of the statutory requirement to include a statement of recommendations or an assessment of the State’s progress in achieving such goals. Agency personnel stated if the requirement is not repealed in the fall veto session, the statement will be included in the 2004 report to be submitted to the Governor in January 2005.

- The Agency did not timely submit the Teacher Supply and Demand Annual Report to the Governor, General Assembly and institutions of higher education. The School Code (105 ILCS 5/2-3.11c) requires the Agency to report annually, on or before January 1, on the relative supply and demand for education staff of the public schools to the Governor, General Assembly and institutions of higher education that prepare teachers, administrators, school service personnel, other certified individuals, and other professionals employed by school districts or joint agreements. Agency personnel stated the report was not submitted until July 2004 due to the unavailability of “pipeline data” and the need to do additional analysis of the information.

Failure to report complete information to the Governor and General Assembly is noncompliance with a statutory mandate.
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FINDING 04-7  (Noncompliance with Reporting Requirements – Continued)

In addition, during the prior audit, the Agency did not include information on the dates school districts were notified of their change in recognition status or the course of action taken by the school districts with respect to their change in recognition status or include information on recognized schools in the 2001 Annual Statistical Report. During the current audit, the Agency did include information on the dates school districts were notified of their change in recognition status or the course of action taken by the school district and information on recognized schools in the 2002 Annual Statistical Report. Also, during the prior audit, the Agency did not maintain proper documentation for the submission of the Latch Key Report to the Governor. During the current audit, the Agency provided documentation of submission of the Latch Key Report to the Governor. (Finding Code No. 04-7, 03-7)

RECOMMENDATION:

We recommend the Agency prepare and submit required reports in accordance with provisions of the School Code.

AGENCY RESPONSE:

The Agency agrees with the recommendation and has implemented the following reporting changes:

- The Agency submitted a separate FY2004 Career and Technical Education report to the Governor, Legislative leaders, and others on Jan. 12, 2005. The report incorporates all requirements of 105 ILCS 435/2e.

- The Preliminary 2004 Educator Supply and Demand Report was transmitted prior to the deadline and documentation exists showing the transmission. The Agency anticipates updating information in the report as more data become available. The division responsible for compiling the report will also work closely with the Certification Division, who is responsible for the pipeline data, to ensure that data is collected on a more timely basis.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-8  (Lack of Controls over Receipts Processing)

The Agency did not maintain proper controls over miscellaneous receipts processing.

During our compliance examination, we noted the following:

- The Agency’s Fiscal Procedure: User’s Manual sets a cut-off time one hour earlier than that allowed by State statute for deeming single items of receipt exceeding $10,000 as received on the next working day. The manual allows single items of receipt exceeding $10,000 to be deemed received on the next working day if received after 1 p.m.

- 20 of 25 (80%) Treasurer’s Drafts were not remitted to the Comptroller on a timely basis. The drafts were remitted between 4 and 55 days after receipt of the Treasurer’s Draft, or the date of the Treasurer’s Draft if not stamped received by the Agency.

- 3 of 25 (12%) receipts tested were not deposited into the State treasury on a timely basis. Receipts were deposited between 1 and 3 days late.

- 13 of 25 (52%) Cash Received Listings (CRLs) tested were not signed and/or dated as received or approved by the central cashier.

- 10 of 25 (40%) CRLs tested did not contain a deposit authorization signature.

- 10 of 25 (40%) CRLs tested were not signed and/or dated by the mail opener.

- Receipts totaling $3,537 in the SBE Teacher Certification Institute Fund (Fund 159) were posted to an incorrect revenue source code. The receipts were posted to revenue source code 1113 (Transfer/Region Fund Balance), but should have been recorded to revenue source code 1080 (Teacher’s Certification).

The State Officers and Employees Money Disposition Act (30 ILCS 230/2) requires any single item of receipt exceeding $10,000 to be deposited into the State Treasury on the day of actual physical receipt. Receipts received after 2 p.m. are deemed to have been received on the next working day (30 ILCS 230/2(a)). In addition, prudent business practices require the Agency to remit Treasurer’s Drafts to the Comptroller’s Office on a timely basis and Agency personnel to sign and date CRLs, indicating verification of the receipts listed on the CRL.
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FINDING 04-8 (Lack of Controls over Receipts Processing – Continued)

Agency personnel stated the Agency’s Fiscal Procedure: User’s Manual was written to provide staff sufficient processing time to adhere to the 2 p.m. statutory requirement. In addition, Agency personnel stated the problems associated with miscellaneous receipts were due to the result of Teacher Certification restructuring during the first part of fiscal year 2004 and the training of new staff due to layoffs.

Lack of proper controls over receipts processing could lead to misappropriation of funds, inaccurate financial reporting, and continued noncompliance. (Finding Code No. 04-8)

RECOMMENDATION:

We recommend the Agency revise its Fiscal Procedure: User’s Manual and strengthen its internal controls over receipts processing to ensure compliance with all rules, regulations and statutory requirements.

AGENCY RESPONSE:

The Agency will continue to strengthen its internal controls over receipt processing.
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FINDING 04-9  (Lack of Controls over Contract Requirements)  

The Agency did not maintain proper controls over contract requirements. During our contract testing, we noted the following:  

- 2 of 11 (18%) professional and artistic contracts sampled were not reduced to writing before services were performed and the Agency did not file a Professional and Artistic Services Affidavit with the Office of the Comptroller and the Office of the Auditor General. The contracts were filed 72 days late.  
- 1 of 3 (33%) contracts over $3 million did not include the Request for Sealed Proposal (RFSP) Routing Record in the contract file and the RFSP Routing Record could not be located by the Agency.  
- 1 of 18 (6%) contracts contained disclosures that were not dated by the Vendor.  
- 1 of 18 (6%) contracts was not dated by an Agency official.  

The Procurement Code (30 ILCS 500/20-80) requires an affidavit, signed by the chief executive officer of the Agency, be filed with the Comptroller and the Auditor General for professional and artistic contracts in excess of $5,000 if not reduced to writing before services were performed. The Agency’s Fiscal Procedure: User’s Manual requires a RFSP Routing Record to be attached to the RFSP for all contracts of $100,000 or more and for all documentation to be retained in the contract file. In addition, good business practices require all contract documents to be dated and maintained. 

Agency personnel stated the Professional and Artistic Services Affidavit was not filed due to a misunderstanding of Comptroller requirements. The failure to date the contract and disclosures at the time the documents were signed was attributed to clerical error. Agency personnel further stated the missing RFSP Routing Record was misplaced.  

Lack of proper controls over contract documents could lead to misappropriation of funds and continued noncompliance.  

In addition, during the prior audit, we noted 3 of 25 (12%) general contracts sampled with alterations to signature dates. The contracts, each of which exceeded $10,000, were filed with the Office of the State Comptroller subsequent to the altered contract dates. During the current audit, we did not note any contracts with alterations to signature dates for the contracts tested. (Finding Code No. 04-9, 03-8, 02-10)
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-9  (Lack of Controls over Contract Requirements – Continued)

RECOMMENDATION:

We recommend the Agency strengthen its controls to ensure compliance with all contracting rules, regulations and statutory requirements.

AGENCY RESPONSE:

The Agency will continue to enforce its controls to ensure compliance with all contracting rules, regulations and statutory requirements.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-10  (Inaccurate Agency Fee Imposition Report Form)

The Agency did not properly report the fees collected on the 2004 Agency Fee Imposition Report Form submitted to the Office of the State Comptroller.

During our testing of the Agency Fee Imposition Report Form filed with the Comptroller’s Office for the audit period, we noted the School Bus Driver Course Fees were not properly classified. The Agency classified all school bus driver fees as School Bus Driver refresher course fees and recorded no fees for the School Bus Driver initial classroom course in school bus driver safety.

The State Comptroller Act (15 ILCS 405/16.2) requires all State agencies that impose and collect fees to prepare the Agency Fee Imposition Report Form. The form shall list and describe the fees imposed by the Agency, the purpose of the fees, the amount of revenue generated by each fee, and the funds into which the fees are deposited.

Agency personnel stated the division responsible for compiling the data was unable to provide records detailing the type of school bus driver fees collected; therefore, Fiscal Services used summary level information to prepare the report.

Inadequate reporting of fees on the Agency Fee Imposition Report Form could lead to inaccurate information on the Statewide Agency Fee Imposition Report submitted to the General Assembly and lessens governmental oversight.

In addition, during the prior audit, 5 of 6 (83%) Fee Amounts on the Deposit Summary by Fee Number did not agree to the Comptroller’s records, supporting documentation did not agree to the Number of Charged data in 1 of 6 (17%) Statewide Accounting Manual System (SAMS) source codes, and a thorough supervisory review was not performed. During the current audit, the Fee Amounts on the Deposit Summary by Fee Number did agree to the Comptroller’s records, the Number of Charged data was supported by Agency documentation, and evidence of a supervisory review was provided. (Finding Code No. 04-10, 03-10, 02-8)

RECOMMENDATION:

We recommend the Agency ensure Agency Fee Imposition information is accurately reported.

AGENCY RESPONSE:

The Agency will ensure that Agency Fee Imposition information is accurately reported. The 2004 report was revised and submitted to the Comptroller. The adjustment was for $264, which the Agency believes to be an immaterial amount.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-11  (Inadequate Oversight of the Regional Offices of Education)

The Agency did not provide adequate oversight of the Regional Offices of Education (ROEs) and Intermediate Service Centers (ISCs). During our audit, we noted the following:

- The Agency did not include language identifying allowable and unallowable expenditures in some grant application material. Management controls require the recipients of State funds be provided sufficient guidance to ensure regulatory compliance in the spending of State monies. Agency personnel stated that specific language identifying allowable and unallowable expenditures was not provided to grant recipients due to limited resources and the lack of a specific requirement to include all allowable and unallowable costs in the grant application.

- The Agency did not properly perform annual record reviews of the 48 ROEs/ISCs. The reviews were not dated; therefore, it could not be determined whether the reviews were performed during the fiscal year. In addition, the Regional Improvement Plan activity statements were not reviewed to ensure the individual responsible for conducting each activity was identified. The Illinois Administrative Code (23 Ill. Adm. Code 525.130) requires the ROE to identify the individual responsible for conducting each activity in its Regional Improvement Plan. Agency personnel stated it was not possible to review the Regional Improvement Plan for all possible detailed items due to limited resources.

Inadequate controls over State funds and financial information could lead to inaccurate financial statements. Weak controls could lead to misappropriation of funds, errors in financial reporting, and noncompliance with mandated duties.

In addition, during the prior audit, the Agency did not maintain documentation of communications with the coordinating council, provide training to the ROEs/ISCs in the use of expenditure codes, perform required biennial site visits to the 48 ROEs and ISCs, monitor the meetings of the ROE/ISC Advisory boards or set guidelines or introduce legislation on additional compensation paid to ROE superintendents or assistant superintendents. During the current audit, the Agency established a system of maintaining communications with the coordinating council. In addition, the Agency performed all but 5 biennial site visits of the 48 ROEs and ISCs prior to June 30, 2004 and monitored the meetings of the ROE/ISC advisory boards. However, the 5 biennial site visits not completed by June 30, 2004 were completed by September 30, 2004. Lastly, expenditure codes and additional compensation paid to ROE superintendents and assistant superintendents is now reviewed during ROE financial statement audits performed by the Office of the Auditor General. (Finding Code No. 04-11, 03-11, 02-11)
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-11  (Inadequate Oversight of the Regional Offices of Education – Continued)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to ensure proper oversight of the ROEs and ISCs. These policies and procedures should include controls designed to strengthen the Agency’s oversight of the ROEs/ISCs.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will develop guidelines for allowable and unallowable costs and incorporate them into future ROE grant application materials. The Agency will also disseminate additional guidance on allowable and unallowable costs during FY05.

The Agency has improved the annual record review process to include dates and an additional review step to ensure that individuals responsible for Regional Improvement Plan Activities are identified.
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FINDING 04-12  (Failure to Ensure Premium List Certifications)

The Agency did not comply with a provision of the Agricultural Fair Act. Vocational Agricultural Section Fairs are organized and conducted under the supervision of the State Board of Education.

Each fair supervisor is required to submit a premium list certification and financial statements to the State Board of Education. Premium list certifications providing the fair date and location, name of the fair manager, and amount of prize money to be offered for each award must be submitted at least 10 days in advance of the fair. Financial statements providing the prizes, amounts awarded, and individuals paid must be submitted within 30 days following the fair. Both documents must be signed and notarized. The documents from 13 fiscal year 2004 fairs, or 26 documents, were selected for testing.

We noted the following:

- 3 of 13 (23%) premium list certifications did not contain all required information.
- 2 of 13 (15%) financial statements did not contain all required information.
- 1 of 13 (8%) premium list certifications was neither signed nor notarized by the fair supervisor.
- 1 of 13 (8%) financial statements was not notarized by the fair supervisor. The original financial statement was notarized, but the revised financial statement was not notarized.
- The Agency did not maintain documentation that 13 of 13 (100%) financial statements were forwarded to the Department of Agriculture within 30 days after the close of the fair.
- A thorough supervisory review to ensure compliance with the Agricultural Fair Act was not performed.

The Agricultural Fair Act (30 ILCS 120/16) requires the State Board of Education to supervise the Vocational Agricultural Section Fairs both in certification of premium lists and of financial statements showing all premiums awarded. The State Board of Education is required to certify to the Department of Agriculture a list of all premiums to be offered at that fair. Within 30 days of the close of a fair, fair supervisors are required to certify the financial statements of the fairs and the Agency is to forward the financial statements to the Department of Agriculture.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-12  (Failure to Ensure Premium List Certifications – Continued)

Agency personnel stated that due to staff reductions during previous fiscal years, the Agency adopted a risk based approach in determining the areas in which to assign personnel. As responsibility for this mandate is shared with another Agency and noncompliance would not interfere with the ability of the State Board of Education to meet its mission, noncompliance with this mandate was considered low risk.

Failure to ensure premium lists and financial statements contain all required information, lists are signed and notarized by fair supervisors, the financial statements are forwarded to the Illinois Department of Agriculture and not performing a thorough supervisory review lessens governmental oversight and is noncompliance with a statutory mandate.

In addition, during the prior audit, the Agency did not ensure premium list certifications and financial statements were filed by fair supervisors in a timely fashion. During the current audit, the Agency ensured premium list certifications and financial statements were filed by fair supervisors in a timely fashion. (Finding Code No. 04-12, 03-12, 02-12)

RECOMMENDATION:

We recommend the Agency ensure its mandated duties are fulfilled by establishing and implementing policies and procedures to ensure compliance with all applicable requirements of the Agricultural Fair Act.

AGENCY RESPONSE:

The Agency agrees with the recommendation and as the program has been jointly administered by the Department of Agriculture, which carries out most of the program’s function, both Agencies agreed that it would be appropriate for the Department of Agriculture to have responsibility for the program. Legislation was introduced to amend the statute governing the program and changes to the administrative rules were adopted in August, 2004. ISBE will follow the progress of the legislation and continue to work with the Department of Agriculture to ensure that all issues are resolved.
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FINDING 04-13  (Failure to Conduct Performance Appraisals in a Timely Manner)

The Agency did not complete timely employee performance appraisals in accordance with the Illinois State Board of Education Human Resources Manual.

Our personal services sample included 25 employees requiring performance evaluations during the fiscal year. We noted the following in our testing:

- No performance appraisals were on file for 10 (40%) of the employees.
- The performance appraisals for 2 (8%) employees were untimely. Those appraisals were performed between 22 and 43 days late.
- The performance appraisals for 4 (16%) employees were not filed with Human Resources at least 2 weeks prior to the scheduled due date. Those appraisals were filed between 4 and 57 days late.

The Agency’s Human Resources Manual requires each permanent support and professional employee to be evaluated within three months prior to his/her creditable service date. The completed evaluation is to be forwarded to the Human Resource Unit at least two weeks before the scheduled due date.

Agency personnel stated the performance appraisals were not completed by their creditable service date or not filed by the required due date due to oversight. Advance and late reminders are sent to supervisors; however, some either fail to forward a copy of completed performance appraisals or do not perform the appraisal due to work priorities or other concerns.

Failure to ensure all employees receive a performance appraisal on a timely basis and in accordance with Agency policies lessens the Agency’s ability to effectively manage its employees. (Finding Code No. 04-13)

RECOMMENDATION:

We recommend the Agency ensure compliance with its policies and procedures and conduct performance appraisals on a timely basis.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will review its processes to ensure that timely completion of performance evaluations is being achieved.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-14  (Inaccurate Form W-2 Reporting)

The Agency did not properly include the reimbursement of moving expenses in its 2003 Form W-2 reporting. During our personal services testing of the one employee allowed the personal use of a State vehicle, we reviewed the employee’s Form W-2 for proper reporting of all fringe benefit and other income items. We noted the following:

- In accordance with an employment contract, the Agency reimbursed the employee $15,748 for moving and other related expenses. The $10,932 taxable portion of the reimbursement should have been included with wages in Box 1, but was reported as excludable reimbursement of moving expenses in Box 12. The nontaxable portion of $4,816 should have been reported as excludable reimbursement of moving expenses in Box 12, but was not reported on Form W-2.

- The information provided to the Comptroller’s Office did not include sufficient detail to ensure proper reporting on Form W-2.

- No supervisory review was performed subsequent to the Comptroller’s preparation of Form W-2, although the Agency has experienced numerous past problems related to the reporting of fringe benefit and other income items requiring manual adjustment to Form W-2.

According to Treasury Regulation 1.217-2, the taxable portion of moving expense reimbursements must be reported with wages, tips and other compensation on an employee’s Form W-2. The nontaxable portion is required to be reported in Box 12 as Code P, Excludable Reimbursement of Moving Expenses. In addition, prudent business practice requires proper internal controls, such as a supervisory review, be established to ensure the accuracy and reliability of data submitted for financial reporting for employees.

Agency personnel stated they reported the moving expense information to the Comptroller’s Office and that the Agency is not required to review Forms W-2.

Failure to provide sufficient detail to the Comptroller’s Office led to inaccurate reporting of income and excludable reimbursement of moving expenses on the employee’s Form W-2 and is non-compliance with U.S. Department of Treasury regulations. (Finding Code No. 04-14)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to ensure Form W-2 reporting complies with Treasury Regulations. In addition to performing a supervisory review of the amounts manually calculated, the Agency should review and approve the correspondence to the Comptroller’s Office to ensure the Agency provides sufficient detail for Form W-2 reporting.
CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-14  (Inaccurate Form W-2 Reporting – Continued)

We further recommend the Agency perform a subsequent review of any Forms W-2 reporting unusual amounts or amounts requiring manual adjustment.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will implement the necessary controls to ensure accurate W-2 reporting.
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-15  (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science)

In April 2003, the Office of the Auditor General released a financial and management audit of the Teachers Academy for Mathematics and Science (Academy). The audit contained nine total recommendations, seven of which were directed at the Illinois State Board of Education (Agency) to improve Agency monitoring of taxpayer funds that were provided to the Academy. As part of this compliance attestation engagement, auditors followed-up on the status of these seven recommendations. While the Agency has taken some action to address the recommendations, we found that six of the seven recommendations had not been fully implemented. Below is a summary of the seven recommendations directed to the Agency.

The following four recommendations have not been implemented by the Agency:

- Academy Funding as A Named Entity in the ISBE Budget (Recommendation #1): The Agency should develop a formal grant agreement with the Teachers Academy for Mathematics and Science that includes information on what are appropriate and inappropriate uses of the funds, program specifications, budget guidelines, and terms for the grant. Since the Academy did not receive funds from the Agency during FY04, the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

- Academy Goals (Recommendation #3): The ISBE should provide the Teachers Academy for Mathematics and Science with documented outcome goals prior to the fiscal year in return for funding levels received from the State. In addition, the Agency should monitor the Academy’s performance to ensure State resources are being used for the purposes intended. Since the Academy did not receive funds from the Agency during FY04, the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

- Academy Evaluation and Results (Recommendation #4): The Agency should establish a system to monitor the performance of the Teachers Academy for Mathematics and Science by developing and implementing procedures governing the review of Academy prepared documents. This should include reconciling proposed services to what is actually delivered. Additionally, the Agency should verify the information presented in the Academy’s evaluation reports and determine whether the increases in test scores are commensurate for the funding level received by the
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FINDING 04-15  (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science – Continued)

Academy. Since the Academy did not receive funds from the Agency during FY04 the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. The Agency noted it received an expenditure report from the Academy for the FY03 funding received from the Agency. Additionally, the Academy provided an explanation of the intended uses for the remaining FY03 funds after the end of the State fiscal year (the Academy fiscal year ends in September). However, this recommendation was directed at monitoring whether the Academy was not only providing the services to the teachers but also verifying that the Academy’s evaluation reports show increases commensurate with funding levels. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

- Expenditures (Recommendation #5): The Agency should develop administrative rules that identify what are allowable and unallowable uses of State funds provided to grantees, including the Academy. Further, the Agency should follow up on questioned expenditures to see if there is any need to recover State funds. The Agency has not developed administrative rules that identify what are allowable and unallowable uses of State funds provided to grantees. Further, while the Agency did question some Academy expenditures in the FY03 closeout expenditure report, the Agency did not follow up on all the questioned expenditures identified in the financial and management audit. The Agency relied on a single reimbursement payment from the Academy for exercise equipment and a boat trip and did not go on-site to the Academy to follow up on our questioned expenditures. It should be noted that the payment identified above was made the day after the release of the financial and management audit.

The following two recommendations have been partially implemented by the Agency:

- Unrestricted Funds (Recommendation #7): The Agency should monitor the use of interest income on State funds to ensure that these funds are used for the same purpose as the principal of the grant. Additionally, the Agency should examine the Academy’s use of interest revenue and recover any funds that were used for non-grant purposes. The Academy provided the Agency with information to show it had used the accumulated interest monies on renovation to a new facility. The information was prepared in May 2003. While an Agency official stated this documentation satisfied the Agency, the Agency requested, in March 2004, an Attorney General opinion on the uses for interest earned with State funds. As of July 2004 the Agency had not received the opinion. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.
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FINDING 04-15  (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science – Continued)

- Fixed Assets (Recommendation #9):  The Agency should develop criteria, to be included in formal grant agreements with the Teachers Academy, that returns fixed assets purchased with State funds by the Academy to the State in the event the Agency discontinues funding of the Academy program. After an initial attempt to recover equipment from the Academy in October 2003, the Agency is waiting for an Attorney General opinion, requested in March 2004, on remedies for disposition of fixed assets purchased with State funds. Further, since the Academy did not receive funds from the Agency during FY04 the Agency did not develop criteria addressing fixed assets purchased with State funds. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. The recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

The following recommendation has been implemented by the Agency:

- Additional Grant Funding to the Academy (Recommendation #2):  The Agency should enter into formal agreements with entities, including the Teachers Academy for Mathematics and Science, which receive grant funding from the Agency and maintain documentation to show how funds were used. Audit testing of 25 agreements in the grant and award area did not disclose any instances where formal agreements were not maintained by the Agency.

It is important that the Agency continue to implement the recommendations from the financial and management audit to further improve its monitoring of the Academy and other grantees. (Finding Code No. 04-15)

RECOMMENDATION:

We recommend that the Illinois State Board of Education continue to fully implement the remaining six audit recommendations contained in the April 2003 financial and management audit of the Teachers Academy for Mathematics and Science that were either not implemented or were partially implemented.

AGENCY RESPONSE:

The Agency will continue to implement the recommendations as agreed to in the previous Agency responses.