UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: Robert Pasternack
Assistant Secretary
Office of Special Education and
Rehabilitative Services

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the Connecticut State Department of Education, Hartford, Connecticut
Control Number ED-OIG/A05-B0020

Attached is the subject report resulting from our audit of IDEA Part B at the Connecticut State Department of Education.

If you have any questions or wish to discuss the contents of this report, please contact Richard Dowd, Regional Inspector General for Audit, Region V, at 312-886-6503.

Please refer to the above audit control number in all correspondence relating to this report.

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: John Danielson
Chief of Staff
Office of the Secretary

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the Connecticut State Department of Education, Hartford, Connecticut
Control Number ED-OIG/A05-B0020

Attached is a copy of the final audit report referenced above. We are furnishing this report to you because it may contain information of interest to you.

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Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: William D. Hansen
Deputy Secretary of Education

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the Connecticut State Department of Education, Hartford, Connecticut
Control Number ED-OIG/A05-B0020

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Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: Eugene W. Hickock
Under Secretary

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the ***Connecticut State Department of Education, Hartford, Connecticut***
Control Number ED-OIG/A05-B0020

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Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: Laurie Rich
Assistant Secretary
Office of Intergovernmental and Interagency Affairs

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the ***Connecticut State Department of Education, Hartford, Connecticut***
Control Number ED-OIG/A05-B0020

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Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 29 2001

TO: Gerald Reynolds
Assistant Secretary
Office of Civil Rights

FROM: Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: **FINAL AUDIT REPORT**
Audit of IDEA Part B at the ***Connecticut State Department of Education, Hartford, Connecticut***
Control Number ED-OIG/A05-B0020

Attached is a copy of our final audit report referenced above. We are furnishing this report to you because it may contain information of interest to you.

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

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 29 2001

CONTROL NUMBER
ED-OIG/A05-B0020

Mr. George Dowaliby, Bureau Chief
Connecticut State Department of Education
Bureau of Special Education and Pupil Services
25 Industrial Park Road
Middletown, CT 06457-1543

Dear Mr. Dowaliby:

This **Final Audit Report** presents the results of our audit of Individuals with Disabilities Education Act Part B (IDEA) funds at the Connecticut State Department of Education, Bureau of Special Education and Pupil Services (CSDOE) and three selected local educational agencies (LEAs). The objectives of our audit were to determine: (1) the extent of and reasons for carryovers at the three selected LEAs; (2) how many LEAs implemented the 20 percent supplanting provision and, where implemented, how the supplanted funds were used and accounted for; and (3) if CSDOE developed and implemented cash management controls to minimize excess cash.

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate Education Department officials.

We provided CSDOE with a draft of this report. CSDOE concurred with the cash management finding and recommendation. We paraphrased CSDOE's comments after the finding and have included the response as an Attachment to this report.

AUDIT RESULTS

The percentage of IDEA funds that the three LEAs in our sample carried over ranged from 23 to 45 percent of their 1999 grant year (July 1, 1999 - June 30, 2000) total IDEA allocation. Two of the LEAs had a carryover because expenses during the grant year were less than expected, and the third LEA planned to have a carryover. CSDOE did not monitor LEAs to determine if they used the 20 percent supplanting provision and had no record that any LEA used the provision. Two of the three LEAs maintained excess cash. CSDOE needs to improve controls to ensure that the LEAs comply with cash management requirements.

Carryover

Under the Tydings Amendment, 20 U.S.C. § 1225, IDEA funds not obligated by the end of the fiscal year for which they were appropriated can be carried over to the following fiscal year. Under the Tydings Amendment, LEAs have up to 27 months to obligate IDEA funds. Statewide, the carryover percentage for 105 of 153 LEAs increased between the 1996 and 1999 grant award years. For the 1999 grant award year, the 153 LEAs had an average carryover of 25 percent. The three LEAs in our sample had an average 1999 grant award carryover of 32 percent. Two of the LEAs planned to expend their entire IDEA allocation during the grant award year. However, expenses during the year were less than expected. As a result, the two LEAs carried over unexpended funds. The other LEA planned to have a carryover.

Supplanting

IDEA contains a supplanting provision that allows LEAs to use 20 percent of the federal funding increase in place of non-federal funds. CSDOE did not monitor LEAs to determine if they used the 20 percent supplanting provision. However, based on data in the LEAs' audited financial statements, CSDOE assumed that 10 LEAs in the 1997 grant year and 17 in 1998 used the 20 percent supplanting provision because the data indicated they had not met the federal maintenance of effort requirement. CSDOE made adjustments to the data to allow for the use of the 20 percent supplanting provision, and concluded the LEAs still did not meet the federal maintenance of effort requirement. It then asked each LEA to provide documentation explaining why it did not meet the requirement. We reviewed the documentation for 3 of the 17 LEAs from the 1998 grant year, and concluded that they did meet the maintenance of effort requirement and did not use the 20 percent supplanting provision. Although we did not review documentation for the remaining LEAs, nothing came to our attention to indicate that any of them used the supplanting provision. CSDOE obtained no other information on use of the 20 percent supplanting provision from the LEAs.

Cash Management

While reviewing IDEA cash flow, we identified excess cash at two of the three LEAs. According to 34 C.F.R. §80.20 (b) (7) (July 1, 1999), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

However, CSDOE's process for obtaining IDEA funds and disbursing them to the LEAs did not comply with the regulation. The LEAs used the Monthly Cash Management Report (CSDOE form ED 111) to report total cash needs through the end of the upcoming month. CSDOE used the reported amounts, minus previous drawdowns, to obtain IDEA funds from the Department and disburse them to the LEAs. CSDOE did not determine how much of the reported total cash needs were actual expenses or if projected needs through the end of the upcoming month were reasonable.

Each of the two LEAs that maintained excess cash reported cash needs based on overstated projections. One LEA reported cash needs based on a predetermined schedule for receiving funds.

The predetermined amounts significantly exceeded actual expenses plus projected cash needs through the end of the upcoming month. Cash on hand at that LEA as of June 30, 2000, reached a high of $272,089, or 50 percent of its total 1999 grant year award. In May 1998 and 1999, the second LEA reported, as total cash needs, amounts that it did not expend until June 1999 and 2000, respectively. Cash on hand at that LEA as of November 24, 1999, reached a high of $56,644, or 30 percent of its total 1999 grant year award.

The excess cash on hand at the LEAs resulted in an imputed interest cost to the U.S. Government. We did not do sufficient testing to statistically project the statewide imputed interest cost. Based on our limited testing, using the 5 percent U.S. Treasury Current Value of Funds Rate, we estimate the additional cost could have been between $4,000 and $28,000 a month.

Recommendation

The Assistant Secretary for the Office of Special Education and Rehabilitative Services should instruct CSDOE to improve controls to ensure that the LEAs comply with cash management requirements.

CSDOE's Comments – CSDOE concurred with our cash management finding and recommendation. CSDOE's response indicated that it had taken action to improve controls to ensure that the LEAs comply with cash management requirements. In addition, CSDOE has alerted Independent Public Accountants to its concerns involving excess cash and will monitor Single Audit Reports for cash management findings.

BACKGROUND

The purpose of IDEA is to (1) ensure that children with disabilities have available to them a free appropriate public education that emphasizes special education and related services designed to meet their unique needs and prepare them for employment and independent living; (2) ensure that the rights of children with disabilities and parents of such children are protected; and (3) assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities. IDEA was enacted in 1975 and is scheduled for reauthorization in 2002.

The IDEA programs are governed by regulations contained in 34 C.F.R. Part 300, *Assistance to States for the Education of Children with Disabilities*. In addition, IDEA is subject to the provisions contained in the *State-Administered Programs* (34 C.F.R. Part 76), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 C.F.R. Part 80), and *General Education Provisions Act-Enforcement* (34 C.F.R. Part 81) regulations.

For grant year 1999, the Department provided $53.0 million to CSDOE for IDEA. Of that amount, CSDOE kept $11.3 million for administration and state level activities and allocated $41.6 million to its 153 LEAs. CSDOE provided $2.109 million to Hartford Public Schools, $546,000 to Hamden Public Schools, and $163,000 to Wolcott Public Schools.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine: (1) the extent of and reasons for carryovers at the three selected LEAs; (2) how many LEAs implemented the 20 percent supplanting provision and, where implemented, how the supplanted funds were used and accounted for; and (3) if CSDOE developed and implemented cash management controls to minimize excess cash.

To meet our objectives, we reviewed: (1) CSDOE's written procedures for requesting and receiving IDEA funds from the Department and disbursing funds to the LEAs; (2) appendices to CSDOE's State Agency Appropriation Accounting System Manual; (3) CSDOE's IDEA grant application, bank records, draw down records, payment lists, vouchers, carryover records, and State Treasurer's reports; (4) Cash Management Improvement Act Agreements between CSDOE and the U.S. Treasury; (5) CSDOE records of LEAs that may have used the supplanting provision; and (6) LEA receipt and expenditure records and expense reports.

We reviewed findings from the 1998 and 1999 single audit reports for the State of Connecticut and researched the Office of Special Education Program's web page for recent monitoring reports. In addition, we interviewed officials from CSDOE, the three selected LEAs, and an official at the Connecticut Auditor of Public Accounts.

To achieve the assignment's objectives, we relied on data contained in electronic accounting records at CSDOE and two LEAs. We verified that CSDOE's disbursement information agreed with receipt information in the electronic accounting records at two LEAs and the manual accounting records at the third LEA. We did not verify data reliability because the data were not critical to meeting the objectives of the audit. However, during our audit, nothing came to our attention that caused us to doubt the acceptability of the data.

Our audit covered the 1997, 1998, and 1999 grant award years. To calculate the increase in carryover for the three years covered, we obtained and used 1996 grant year data as a base year. We performed field work at CSDOE in Middletown, Connecticut, from April 23-25, 2001, and at three LEAs from April 25-May 4, 2001. We randomly selected the LEAs by selecting one each from stratified universes of 6 large, 15 medium, and 90 small LEAs statewide. We conducted our audit in accordance with government auditing standards appropriate to the scope of our review.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we gained an understanding of CSDOE's management control structure, as well as its policies, procedures, and practices applicable to the scope of the audit. We identified applicable significant controls at CSDOE related to carryovers, supplanting, and cash management. We gained an understanding of the policies, procedures, and practices related to carryovers, supplanting, and cash management at the three LEAs. Due to inherent limitations, gaining an understanding of management controls would not necessarily disclose all material weaknesses. However, we identified a cash management weakness at CSDOE related to monitoring LEA reported disbursement amounts. The Audit Results section of this report fully discusses this weakness and its effect.

ADMINISTRATIVE MATTERS

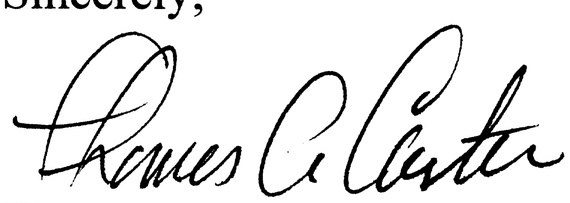
If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final action on the audit:

Robert Pasternack
Assistant Secretary for Special Education
and Rehabilitative Services
FOB 6, Room 7W103
400 Maryland Avenue, SW
Washington, DC 20202

Office of Management and Budget Circular A-50 directs federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issues by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,



Thomas A Carter
Assistant Inspector General for Audit

Attachment

STATE OF CONNECTICUT

DEPARTMENT OF EDUCATION

October 26, 2001

Mr. Richard Dowd
Regional Inspector General for Audit – Region V
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd:

The Connecticut State Department of Education respectfully submits this response to the Draft Audit Report (Control Number ED-OIG/A05-B0020) for the Individuals with Disabilities Education Act Part B (IDEA), Section 611 program.

The audit report contained three findings for the Connecticut State Department of Education (CSDE) to provide comments; 1) Carryover; 2) Supplanting and 3) Cash Management. The CSDE concurs with all three findings and provides the following response to the recommendation concerning improving controls to ensure that the local education agencies (LEAs) comply with cash management requirements.

The CSDE's Division of Grants Management (DGM) has implemented a system for monitoring monthly drawdowns. Reports showing the percentage of each grantee's monthly request have been developed and are shared with CSDE program managers. If it is determined that a request is excessive, grantees are contacted and requested to justify or amend their requests.

In addition, the CSDE's Office of Internal Audit (OIA) selected ten LEAs that account for $8 million of the $14 million of unexpended cash balances identified by DGM through data analysis. Letters were sent to the Independent Public Accountants (IPA) for the respective towns advising of CSDE's concerns involving cash management controls. These letters were meant to increase IPA awareness of this issue during testing of cash management controls as part of the Federal Single Audit requirements. These audits and any findings related to cash management should be received by December 31, 2001. Responses to any such findings will be closely monitored by OIA.

In the event that these actions do not improve the situation sufficiently, DGM will develop a plan that would require LEAs to submit monthly spending plans prior to grant approval and to submit actual expenditures at least quarterly. Grantee payments will be adjusted accordingly.

If you have any questions or if you wish to discuss this response, please call me at 860-713-6668 or Mr. George Dowaliby at 860-807-2025.

Sincerely,

Bruce C. Ellefsen, Chief Fiscal Officer
Division of Finance and Administrative Services
Bureau of Fiscal Services

cc: R. Brewer
J. Coroso
G. Dowaliby
R. Inzero
P. Shaughnessy

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