



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

**MAR 29 2002**

Ms. Mary Jayne Broncato  
Deputy Superintendent, School Support  
Illinois State Board of Education  
100 N. First Street  
Springfield, IL 62777-0001

Dear Ms. Broncato:

This Final Audit Report (Control Number ED-OIG/A05-B0024) presents the results of our audit of the Chicago Public School's (CPS) use of Elementary and Secondary Education Act of 1965, as amended (the Act), Title I, Part A, (Title I) funds to purchase property, equipment, and services from National School Services, Inc. (NSS) during the period July 1, 1999, through June 30, 2000.

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

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the OIG 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.

## **AUDIT RESULTS**

During the audit period, CPS used \$619,712 in Title I funds to purchase instructional materials; supplies; professional services; seminars, fees, and memberships; repair and maintenance services; and equipment from NSS. Our review of 106 randomly selected accounting transactions totaling about \$337,000 showed that CPS generally used the Title I funds for Title I purposes.<sup>1</sup> However, CPS could strengthen controls to ensure it (1) gets the best prices for property and equipment, and (2) approves only requests for essential professional development.

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<sup>1</sup> As defined by the Elementary and Secondary Education Act of 1965, as amended; 34 C.F.R. Parts 80 and 200; Office of Management and Budget Circular A-87, as amended; and U.S. Department of Education, Office of Elementary and Secondary Education's *Policy Guidance for Title I, Part A: Improving Basic Programs Operated by Local Educational Agencies* applicable to the scope of this audit. Unless otherwise specified, all regulatory citations are to the July 1999 volume.

In response to the draft audit report, we received comments from the Illinois State Board of Education (ISBE) and CPS. The ISBE and CPS generally concurred with the recommendations from the draft audit report and informed us that they will or have taken corrective actions. We made changes to the report based on the comments we received (See **Appendix A**). Also as a result of those comments, we now are recommending (1) the ISBE conduct an independent assessment of CPS Funded Programs' procurement and payment process (See **Recommendation 1.1**), and (2) restoration of \$1,075 to the pool of funds available for Title I services to private school students (See **Recommendation 2.1**).

**Finding No. 1 CPS Could Strengthen Controls to Ensure It Gets the Best Prices for Property and Equipment**

During the period July 1, 1999, through June 30, 2000, CPS did not obtain the best prices available for property and equipment used to provide Title I services to private school students. We reviewed a judgmentally selected sample of invoices for property and equipment CPS purchased for its Title I programs from NSS and compared those prices with quotations for like items (covering the same period) we obtained from the manufacturers. We limited our review to the invoices NSS submitted to CPS for payment. We did not consider any invoices NSS may have received from its suppliers. Based on this review, we concluded that CPS paid between 22 and 41 percent more than it would have paid if it had purchased like items directly from the manufacturer.

Office of Management and Budget (OMB) Circular A-87, Attachment A (C)(2), defines reasonable costs for state and local governments as any costs that do not exceed that which would be incurred by a prudent person under circumstances prevailing at the time the decision was made to incur the cost. Reasonableness of given costs can be determined by, among other factors, the market prices for comparable goods and services. According to 20 U.S.C. § 6321(a)(3), educational services and other benefits for private school children shall be equitable to services and other benefits for public school children participating in Title I programs.

The Chicago Board of Education requires its public schools to follow the Strategic Sourcing Initiative. Instead of requiring the same purchasing procedures that public school Title I programs must follow, CPS relied on the private schools to obtain price quotations for property and equipment. Though a CPS central office employee<sup>2</sup> had to approve all purchases, CPS did not establish effective controls over purchases made for the Title I programs for private school students. CPS did not require purchase orders and NSS invoices showing sufficient detail so that CPS' Funded Programs staff could determine if other items and services were included in the price of computers. Without such controls, less money was available to purchase equipment, property, and services for private school students who were participating in the Title I programs. CPS also ran the risk that it was not providing equitable services to the private school students. During the

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<sup>2</sup> Funded Programs, Purchasing Department, or both.

period July 1, 1999, through June 30, 2000, CPS purchased approximately \$197,000 in property and equipment from NSS. By establishing controls to ensure it obtained the best prices, CPS would have been able to save between \$43,000 and \$81,000 during the audit period. It could have used these savings to purchase additional property, equipment, and services for other Title I programs for private school students.

When we brought this matter to her attention, CPS' former Director of Funded Programs informed us that her office was considering the following actions:

- ◆ Consider pre-qualified vendors/consultants for needed services by the nonpublic schools for their federal programs;
- ◆ For major purchases over \$10,000, three price quotations will be requested for comparison;
- ◆ For purchases over \$10,000, request for quote or strategic sourcing vendor will be used;
- ◆ Meet with CPS Department of Purchasing to discuss procedures to pre-qualify consultants providing professional services exceeding \$5,000;
- ◆ Utilize CPS strategic sourcing vendor for applicable requisitions with consideration on compatibility of the product to the needs of the private school; and
- ◆ Use vendors with historically proven records with the public schools for related programs.

If enhanced (as described below) and effectively implemented, the policies CPS is considering will reduce the risk of not obtaining the best prices from vendors. They also would provide reasonable assurance that CPS has policies for purchasing property and equipment for Title I programs for private school students that are equitable to those it uses for its public school Title I programs.

### **Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education direct the ISBE to:

- 1.1** Conduct an independent assessment of CPS Funded Programs' procurement and payment process. The purpose of the assessment should be to ensure Funded Programs' process is sufficient for identifying billing irregularities and ensuring prices are reasonable; the assessment also should compare the procurement and payment process CPS Funded Programs uses for Title I programs for private school students with the Title I public school processes it uses, and, if possible, explain how the different processes are equitable;
- 1.2** Require CPS to enhance its purchasing policies to ensure purchase orders and invoices include greater detail and specificity so Funded Programs staff can determine all property, equipment, and services included in the prices; and

**1.3 Monitor CPS to ensure it consistently follows written policies and procedures designed to improve its use of Title I funds to purchase property and equipment.**

**Auditee Comments**

The ISBE received an explanation from CPS stating that the amount for the computers purchased from NSS included services, such as installation, software, and delivery, in addition to the cost of the computers. CPS informed the ISBE that it will require invoices with greater detail and specificity to better identify items and services provided for the Title I programs for private school students. The ISBE stated that it will review the extent to which CPS consistently follows written policies and procedures for purchasing property and equipment.

**OIG Response**

The purchase orders and invoices that we reviewed did not specify that NSS would provide additional items or perform additional services. Further, the Title I program designs we reviewed did not indicate that NSS would provide any services in addition to the property and equipment. We made minor changes to this audit report based on the ISBE's and CPS' comments. We also added a recommendation that the ISBE confirm CPS' assertions by conducting an independent assessment of Funded Programs' procurement and payment process.

**Finding No. 2 CPS Could Improve Controls Over Approving Professional Development**

For \$1,075, NSS provided a training course on Microsoft™ Excel and related materials to teachers and school aides at one of the private schools we visited.<sup>3</sup> Through a discussion with the private school principal and a review of the purchase order and invoice, we determined that the training neither assisted the private school teachers and school aides in identifying at-risk students nor provided the teachers and aides with the skills necessary to address participating students' needs. Therefore, we do not consider this course either reasonable or necessary. When we brought this issue to their attention, CPS officials informed us that they discussed the training with NSS. NSS stated that the training helped teachers and aides identify at-risk children. However, CPS officials told us they did not accept NSS' claim, and the purchase order and invoice we reviewed did not contain sufficient information to support NSS' claim.

Pursuant to Sections 1119(c)(1) and (2) of the Act, a local educational agency is required to provide high-quality professional development that will improve the teaching of academic subjects in order to enable children--in this case, private school children receiving Title I services through CPS--to meet challenging performance standards. First

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<sup>3</sup> As part of this audit, we visited six private schools and two public schools at which CPS operated Title I programs. See the Audit Objective, Scope and Methodology section of this report.

and foremost, professional development activities must support instructional practices geared to challenging content standards. Also, Office of Management and Budget Circular A-87, Attachment A (C)(1)(a), states that all costs charged to the program must be "reasonable and necessary" for the purposes of the program.

CPS' Funded Programs staff did not properly monitor requisitions submitted for professional development. Additionally, CPS' Funded Programs staff did not review thoroughly invoices NSS submitted. The funds used to provide non-essential professional development training to private school personnel could have been used to train teachers and aides in areas that would have a direct influence on the teachers' abilities to provide specialized instruction to the students needing Title I services.

### **Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education direct the ISBE to:

- 2.1** Instruct CPS to restore, from non-federal sources, to the pool of funds available for providing Title I services to private school students, the \$1,075 it paid for the training course and related materials. If CPS cannot restore and use the \$1,075 for Title I services to private school students within time limitations described in 20 U.S.C. § 1225(b), ISBE should repay the \$1,075 to the Department; and
- 2.2** Monitor CPS to ensure Funded Programs staff review all requisitions submitted for professional development and their related invoices carefully. Professional development activities must be evaluated by the Funded Programs staff to ensure the training will provide Title I teachers, aides, or accepted personnel with training that will directly benefit the children participating in the Title I programs.

### **Auditee Comments**

CPS informed the ISBE that the training course was intended to help its Title I teachers and aides and private school teachers in contact with Title I eligible private school students record information and track students' progress. CPS further stated that, even though the course may not have directly addressed the needs of the students served, the course was related to Title I data gathering requirements that must be done. CPS agreed that it needed to review requests for professional development courses prior to delivery of services and ensure the content coincides with the Title I guidelines. The ISBE stated that it would review appropriate documentation to ensure CPS adherence to its commitment to have Funded Programs personnel review and approve proposed professional development activities prior to the delivery of services.

### **OIG Response**

Based on the auditee's comments, the course still appears to be non-essential and contrary to the law. We made minor changes to the finding and revised the

recommendation to direct the ISBE to instruct CPS to restore the costs related to the course.

## **OTHER MATTERS**

During the period July 1, 1999, through June 30, 2000, CPS' private schools Title I teachers and aides completed purchase orders improperly. The teachers and aides did not charge the appropriate budget categories for purchases made with Title I funds, and did not follow written policies and procedures established by CPS' Purchasing Department. As a result, CPS was not in compliance with the standards for financial management systems set forth in 34 C.F.R. § 80.20.

Pursuant to 34 C.F.R § 80.20(a), a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. The procedures of the State and its subgrantees must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of applicable statutes.

During the audit period, when CPS teachers and aides requested items from different budget classifications, they were to complete separate requisitions. If teachers and aides submitted a requisition with a list of items from different budget classifications (or object codes), CPS treated the items as if they were from the same object code. CPS' Program Cost Control system would not allow the costs from one invoice (or requisition) to be separated into different object codes. In such situations, CPS included the whole amount under one budget classification. CPS' new computer system should allow CPS to separate costs from the requisitions and invoices submitted and allocate the expenditures to the appropriate budget classification categories.

We suggest that CPS ensure that its new computer system allows it to classify all purchases in such a way that Funded Programs can easily trace expenditures to a level of detail sufficient to ensure compliance with applicable statutes. CPS could also consider ensuring its Title I teachers and aides follow written policies and procedures. Finally, the ISBE could consider reviewing CPS' new system to ensure it is in line with the State's laws and procedures for expending and accounting for State funds and confirming that CPS is ensuring its Title I teachers and aides follow written policies and procedures.

### **Auditee Comments**

CPS reiterated its assertion that its new system will resolve the budget classification problems and allow for easy comparison of actual with budgeted expenditures. CPS also said it provided training for its Title I teachers and aides to make them aware of their responsibilities.

## **OIG Response**

Based on our understanding of CPS' new financial management system, CPS' actions should be adequate. Its new system should permit the tracing of funds to a level of detail sufficient to determine compliance with Title I law. We suggest the ISBE review CPS' new system to ensure it complies with the State's laws and procedures and confirm that CPS ensures its Title I teachers and aides follow written policies and procedures.

## **BACKGROUND**

Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended, provides funds for supplemental educational services for eligible public and private school students living in high-poverty areas. The Title I program provides formula grants through state educational agencies to local educational agencies to assist low-achieving children meet the State's curriculum and student performance standards in core academic subjects.

Local educational agencies are to target funds to schools with the highest percentages of children from low-income families. Title I services target children who are failing, or at most risk of failing, to meet State academic standards.

Services that are to be provided to private school children under the program include, but are not limited to (1) instruction and services provided in the private school, other public and privately owned sites, or in mobile vans or portable units; (2) educational radio and television; (3) computer-assisted instruction; (4) extended-day services; (5) home tutoring; (6) take-home computers; and (7) interactive technology.

A local educational agency may provide Title I services directly or through contracts with public and private agencies, organizations, and institutions, as long as those entities are independent of the private school and any religious organization providing those services.

CPS, in coordination with private school representatives, developed a yearly program design for each Title I program for private school students. CPS' Funded Programs staff evaluated and approved each program design. Each private school, in coordination with the CPS Title I teacher or aide, had the freedom to choose a vendor to provide property, equipment, or services to the Title I program only if that vendor had been pre-approved by the Chicago Board of Education. NSS, a licensed corporation in Illinois, had been approved to conduct business with the Chicago Board of Education. During the period July 1, 1999, through June 30, 2000, CPS used \$619,712 in Title I funds to purchase instructional materials; supplies; professional services; seminars, fees, and memberships; repair and maintenance services; and equipment from NSS.

## AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine if CPS properly used Title I funds to purchase property, equipment, and services from NSS during the period July 1, 1999, through June 30, 2000. To achieve our objective, we interviewed Funded Programs, Purchasing Department, and Accounting Department personnel. We also reviewed CPS' written policies and procedures covering property maintenance and purchasing, accounting transactions recorded during the audit period, purchase orders and invoices (submitted by NSS) for property and equipment CPS purchased from NSS, and program designs for public and private schools. We reviewed support<sup>4</sup> for 106 randomly selected accounting transactions (totaling about \$337,000) from a universe of 304 transactions (totaling about \$650,000) recorded during the audit period. We also contacted three manufacturers and obtained price quotations on property and equipment like that CPS purchased from NSS during the period July 1, 1999, through June 30, 2000. Finally, we visited two public and six private schools where we interviewed the Title I staff and conducted an inventory of the Title I equipment.

To achieve our audit objectives, we relied in part on computer-processed data contained in CPS' computerized accounting system (Program Cost Control system). We assessed the reliability of this data by comparing a sample of accounting transactions with source documents (purchase orders and invoices NSS submitted to CPS). Based on these comparisons, we concluded that the computer-processed data were sufficiently reliable to be used in meeting the audit's objectives.

We conducted our field work at CPS' administrative offices located at 125 S. Clark Street, Chicago, Illinois, selected public and private schools, and our regional office in Chicago from April 12, 2001, through August 3, 2001. We discussed the results of our audit with CPS officials on August 3, 2001. We conducted the audit in accordance with government auditing standards appropriate to the audit's scope.

## STATEMENT ON MANAGEMENT CONTROLS

As part of this audit, we did not assess the adequacy of CPS' system of management controls applicable to its administration to the Title I programs as a whole, because it was not necessary to achieve our audit objective. Instead, we limited our assessment to CPS' management controls over accounting for Title I funds used to purchase property, equipment, and services. Because of inherent limitations, an assessment made for the limited purpose described would not necessarily disclose all material weaknesses in management's controls. However, our assessment disclosed weaknesses in CPS' management controls over purchasing and accounting for purchases that adversely affected CPS' ability to administer Title I funds. These weaknesses and their effects are discussed in the **Audit Results** and **Other Matters** sections of this report.

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<sup>4</sup> We limited our review to the invoices NSS submitted to CPS for payment. We did not consider any invoices NSS may have received from its suppliers.

## ADMINISTRATIVE MATTERS

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

Susan B. Neuman, Ed.D.  
Assistant Secretary for  
Elementary and Secondary Education  
U.S. Department of Education  
FB6-3W315  
400 Maryland Avenue, SW  
Washington, DC 20202

OMB 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.

Sincerely,



Thomas A. Carter  
Assistant Inspector General for Audit



# Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001

Ronald J. Gidwitz  
Chairman

www.isbe.net

Ernest R. Wish  
State Superintendent of Education  
and Chief Executive Officer

January 11, 2002

Mr. Richard Dowd  
Regional Inspector General for Audit-Region V  
Department of Education  
Office of Inspector General  
111 N. Canal, Suite 940  
Chicago, IL 60606-7204

Dear Mr. Dowd:

This letter constitutes the response from the Illinois State Board of Education (ISBE) to Draft Audit Report (Control Number ED-OIG/A05-B0024) as prepared and submitted by the United States Department of Education (USDE), Office of Inspector General (OIG). That Draft Audit Report presents the results of an audit of the Chicago Public Schools' (CPS) use of Elementary and Secondary Education Act of 1965, as amended (the Act), Title I, Part A, (Title I) funds to purchase property, equipment, and services from National School Services (NSS) during the period July 1, 1999, through June 30, 2000.

**Finding No. 1      CPS Could Strengthen Controls to Ensure It Gets The Best Prices for Property and Equipment.**

**OIG Recommendation:**

The Assistant Secretary for Elementary and Secondary Education needs to direct the Illinois State Board of Education to monitor CPS to ensure it consistently follows written policies and procedures designed to improve its use of Title I funds to purchase property and equipment.

**ISBE Response:**

The OIG Draft Audit Report contained the statement that "CPS did not obtain the best prices available for property and equipment used in private schools." In response thereto, CPS explained that the invoices for computers purchased from NSS represented items and services such as delivery, installation, and software which would not ordinarily be incorporated into a computer purchase price. According to CPS, those invoices were shown as a package and, consequently,

Making Illinois Schools *Second to None*

the price appeared to be excessive for the equipment purchased for use in programs for Title I eligible nonpublic school students. CPS submitted letters (see Attachments A and B) from NSS which addressed the NSS pricing structure.

In order to avoid the likelihood of another situation of this nature, CPS will require that invoices be prepared with greater detail and specificity to better identify items and services and to facilitate the determination of the appropriateness of pricing. CPS will also, barring the necessity to accommodate some unique or particular needs, use strategic sourcing vendors for the acquisition of property and equipment necessary for the implementation of programs of service for Title I eligible students enrolled in private schools. CPS has also indicated its intention to:

- Use vendors with historically proven records with the public schools for related services.
- Consider prequalified vendors/consultants for needed services for federal programs for nonpublic school students.
- Request three price quotations for major purchases over \$10,000.

The ISBE recognizes the importance of effective and efficient use of the Title I resources which are intended to provide support and assistance to our most needy and most at-risk students. ISBE also recognizes the importance of having in place and consistently employing procedures and policies which ensure the reasonableness of costs and which ensure the clarity and accuracy of documents and data intended to convey the manner in which Title I funds are utilized. As part of its exact monitoring procedures, ISBE will review the extent to which CPS consistently follows the written policies and procedures which are designed to improve the manner in which Title I funds are used to purchase property and equipment. ISBE will also reinforce the importance of adherence to such policies and procedures through consultation and written communication.

**Finding No. 2      CPS Could Improve Controls Over Approving Professional Development.**

**OIG Recommendation:**

The Assistant Secretary of Elementary and Secondary Education needs to direct the Illinois State Board of Education to monitor CPS to ensure funded programs staff review all requisitions submitted for professional development and their related invoices carefully. Professional development activities must be evaluated by the funded programs staff to ensure the training will provide Title I teachers, aides, or accepted personnel with training that will directly benefit the children participating in the Title I programs.

**ISBE Response:**

The OIG found that a Microsoft Excel training course provided by NSS did not assist private school teachers and aides in identifying at-risk students, nor did it provide private school teachers and aides with skills required to address the needs of Title I participating private school students.

The OIG also found that CPS did not properly monitor requisitions submitted for professional development, nor did CPS properly review invoices submitted by NSS.

In response to OIG findings, CPS explained that the Microsoft Excel training course provided by NSS was a recommended strategy to better prepare teachers and aides for recording information and tracking student progress. CPS has asserted its intention to henceforth review and approve proposed professional development activities prior to the delivery of services in order to ensure that proposed activities will train teachers and aides in areas that have a direct influence on the ability of those personnel to better serve Title I participating private school students.

With regard to the OIG's concerns relative to the monitoring of requisitions for professional development and the review of invoices submitted by NSS, CPS asserts that its new ORACLE system now provides better monitoring and review of invoices and requisitions. CPS also asserts that its ORACLE system requires that the CPS nonpublic schools manager and/or staff working with its services for Title I participating nonpublic schools students acknowledge receipts on line (PODUP) prior to any payment for goods and services.

ISBE recognizes the importance of each local education agency designing professional development programs which will enable all eligible staff to participate in professional development activities which result in the delivery of services which better address the needs of Title I participating students. As part of its monitoring process, ISBE will review appropriate documentation to ensure CPS adherence to its commitment to have funded programs personnel review and approve proposed professional development activities prior to the delivery of services. ISBE will also monitor to ensure that CPS' new ORACLE system does satisfy the need for better monitoring and review of requisitions and invoices submitted for professional development activities.

**OTHER MATTERS**

The OIG found that the CPS teachers and aides serving Title I eligible students in private schools completed purchase orders improperly as they did not charge appropriate budget categories for purchases made with Title I funds. The OIG also found that those teachers and aides did not follow written policies and procedures established by CPS purchasing department. The OIG noted that, when requisitions were submitted with items from different budget classifications, the Program Cost Control System which CPS had in place at that time would not allow the costs from one invoice or requisition to be separated into different object codes.

**ISBE Response:**

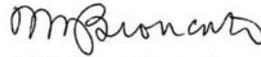
CPS asserts that, with the new ORACLE system, the budget classification problem has been resolved. The new system does allow the costs from one invoice or requisition to be separated into different object codes. The new system also allows for easy comparison of actual and budgeted expenditures by object code, and the system does not allow for the issuance of purchase orders if there is insufficient funding.

With regard to the OIG recommendation that there be additional training on CPS budget classifications, policies, and procedures, CPS asserts that a workshop was conducted at the beginning of this school year to make Title I teachers and aides aware of their responsibilities as Title I personnel. CPS has also established a strategy to ensure compliance of its Title I personnel with policies and procedures through internal accountability processes conducted by funded programs staff persons.

**Closing Statement:**

The ISBE appreciates the opportunity to provide written comments which may be factored into the preparation of the final audit report. We hope that the information provided proves beneficial to your finalization process, and we are available should there be the need for clarification or elaboration on any part of this document.

Sincerely,



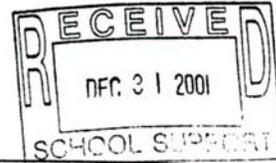
Mary Jayne Broncato  
Deputy Superintendent

cc: Thomas A. Carter  
Gary Whitman  
Arne Duncan  
Barbara Eason-Watkins  
Eva Nickolich  
Lynette Fu  
Julie Bayoneto  
John Maiorca  
Alberto Bramwell  
David Agazzi  
Marilyn F. Johnson  
Sharon Roberts  
Lynda Vaughn  
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Eva Nickolich  
Deputy Chief Education Officer

December 28, 2001

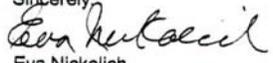
Ms. Mary Jane Broncato  
Deputy Superintendent  
School Support  
Illinois State Board of Education  
100 North First Street  
Springfield, IL 62777-0001

Dear Ms. Broncato:

**RE: AUDIT REPORT – CONTROL NUMBER ED-OIG/A05-B0024**

Enclosed is our response to the report issued by the Office of Inspector General, U.S. Department of Education, in conjunction with the audit of Chicago Public Schools' use of Title I funds to purchase property, equipment and services from National School Services, Inc. during the period July 1, 1999 through June 30, 2000.

If you have any questions, please call me at (773) 553-1444.

Sincerely,  
  
Eva Nickolich  
Deputy Chief Education Officer

CC: Dr. Sharon Roberts  
Dr. Lynda Vaughn

Children First

**AUDIT REPORT-CONTROL NUMBER ED-OIG/A05-B0024  
NATIONAL SCHOOL SERVICES (NSS)  
JULY 1, 1999 THROUGH JUNE 30, 2000**

**RESPONSE:**

**Finding No. 1 – CPS could strengthen controls to ensure it gets the best prices for property and equipment.**

The invoices for the computers purchased from NSS for the period July 1, 1999 through June 30, 2001 for the nonpublic schools included services that would not normally be received in a regular computer purchase such as delivery, installation and software as indicated in the attached letter (see Attachment A). NSS also installed previously owned software on the new machines and setup the new equipment to be compatible with the programs being used for IASA Title I in the nonpublic schools. Invoices were shown as a package, thus, the purchase price paid for the nonpublic schools appeared to be excessive. To resolve this situation, we will require that invoices be more detailed to show other items/services being billed to determine price reasonableness. We will also use CPS strategic sourcing vendors for nonpublic school purchases unless the particular needs of the nonpublic schools would require special handling or a more reasonable pricing can be obtained from another source.

**Finding No. 2 – CPS could improve controls over approving professional development.**

The Microsoft Excel training course and related materials provided to the lab technicians and nonpublic school teachers in contact with IASA Title I eligible nonpublic school students was recommended to record information and track students' progress (see Attachment B). Also, the staff have to complete CPS required forms such as the poverty survey forms and eligibility criteria listing the academically-at-risk students. Although this course may not directly address the needs of the students served, there are functions related to IASA Title I's data gathering requirements that are to be done. However, in the future, we will require that professional development courses be approved prior to delivery of services to verify content in relation to IASA Title I guidelines.

Regarding the recommendation of the department's review of invoices, the new ORACLE system provides us with better monitoring and review of invoices. Prior to any payment, **Department of Funded Programs personnel has to acknowledge receipts online (PODUP)** of goods and services for the nonpublic schools based on vendor's invoices and acknowledgment of CPS nonpublic school staff or the department's nonpublic schools manager.

**AUDIT REPORT-CONTROL NUMBER ED-OIG/A05-B0024  
NATIONAL SCHOOL SERVICES (NSS)  
JULY 1, 1999 THROUGH JUNE 30, 2000**

**OTHER MATTERS –**

**During the period July 1, 1999 through June 30, 2000, CPS' private schools Title I teachers and aides completed purchase orders improperly. The teachers and aides did not charge the appropriate budget categories for purchases made with Title I funds, and did not follow written policies and procedures established by CPS' Purchasing Department.**

Since April 2000, the Department of Funded Programs' staff online the request for goods and services for the nonpublic schools to set up the purchase orders for the vendors. The requests are reviewed for CPS vendor number, description of items/services, accuracy in expenditure coding and available funds. Purchase orders will not be issued if there is insufficient funding.

With regards to improper budget categories, CPS Department of Purchasing can detect improper coding of expenditures and would normally cancel incorrectly coded purchase orders. However, there were some confusion with regards to software. When softwares are purchased with the initial purchase of computers, they are treated as part of the package and thus, coded as equipment. Otherwise, they are coded 5310 or 5320 due to lack of a specific object code which is corrected in FY 2002 with a separate object code 5311. As indicated in the audit report, the CPS legacy system would not allow the costs from one invoice or requisition to be separated into different object codes. Under the new ORACLE system, this problem has been resolved.

As far as training CPS title I nonpublic schools' staff to ensure they follow written policies and procedures, a workshop was held at the beginning of the school year 2002 to make them aware of their responsibilities as Title I personnel and the corresponding program guidelines.

DEC. -27 01 (THU) 10:51

NATIONAL SCHOOL SERVICE

TEL: 1 847 541 2553

P. 001

ATTACHMENT: A



**National School Services**

390 Halbrook Drive, Wheeling, IL 60090  
(847) 541-2768 • (800) 262-4511 • Fax: (847) 541-2553

December 27, 2001

Ms. Julie Bayoneto  
Title I Non-Public Funded  
125 S. Clark Street  
Chicago, IL 60603

Dear Ms. Bayoneto:

National School Services (NSS) has been reviewing our records regarding equipment purchases made for several schools for the school year 99-00. You indicated that there were inquiries about our prices for the computers and requested an explanation for an audit. Our research found the following:

- Our orders were placed individually for each school. We were not able to place a "group" order which may have allowed us some quantity discounts
- NSS was not able to purchase direct from APPLE, we had to go through a distributor, which added additional costs to the base price of the machines
- Price fluctuations for computers were a factor
- Many services were provided that you would not have received if ordered from APPLE
  - Delivery was included in the price
  - Computers were unboxed and set-up by technicians
  - Configuration and connectivity were established to network
  - Previously owned software was installed on the new machines

As you can see, there were many factors that affected the pricing structure. Above and beyond selling computers, National School Services provided a complete array of services to the schools saving their teachers time by offering the following:

- Technical support for hardware and software
- Repair and maintenance services
- Sales of miscellaneous equipment, furniture and supplies
- Sales of software for use on computers
- Sales of supplemental materials for instruction
- Staff development programs

I hope this explains our pricing structure and why schools have chosen our services over the last 12 years. If you have any further questions, please feel free to call me at 800-262-4511.

Sincerely,

Sue Dunlap  
Regional Sales/Marketing Manager

DEC. -26 01 (WED) 16:25

NATIONAL SCHOOL SERVICE

TEL: 1 847 541 2553

P. 002

ATTACHMENT B



July 23, 2001

**National School Services**

390 Holbrook Drive, Wheeling, IL 60090  
(847) 541-2768 • (800) 262-4511 • Fax (847) 541-2553

Lauralyn Billups, Director of Funded Programs  
Chicago Board of Education  
125 S. Clark St.  
Chicago, IL 60603

Dear Ms. Billups:

As per my conversation of July 18<sup>th</sup> with Coneva Douglas concerning the February 18, 2000 workshop at St. Angela School, this workshop was delivered to the teachers that service the Title I children under the April 1996 Professional Development Non-Regulatory Guide Lines. (Refer to question five on the attached sheet from the Title I Handbook.) Also, attached is the Chicago Public School PO #975499 for St. Angela School against which the materials and services provided were charged.

Briefly, this workshop together with the manuals provided necessary instruction to the teachers to better interpret and record information regarding the progress of the Title I children as well as enabled the teachers to more efficiently track the progress of Title I children.

Martha Philpot, secretary at St. Angela, signed the invoice for the workshop after it was performed. It does appear that she signed an incorrect date (1 day earlier). Attached please find the list of attendees for the workshop and the proof of delivery of the services and materials as signed by the principal of the school.

Please do not hesitate to call for any additional information.

Sincerely,



Barbara Durlacher  
Regional Sales/Marketing Manager

cc: Coneva Douglas, Manager

DEC -20 01(WED) 10:20

NATIONAL SCHOOL SERVICE

TEL: (847) 541-2000



**National School Services**

(847) 541-2768

75 REMITTANCE DRIVE  
 SUITE 1076  
 CHICAGO, IL. 60675-1076

BILL TO:

CHICAGO BOARD OF EDUCATION  
 125 SOUTH CLARK STREET  
 CHICAGO IL 60603

**INVOICE**

0012678

CUSTOMER NO. ANGELA

PAGE 1

SHIP TO:

ST. ANGELA ELEMENTARY SCH  
 1332 N. MASSASOT  
 CHICAGO IL 60651

DATE		SHIP VIA		F.O.B.		TERMS		
02/15/00		NSC				NET 30		
PURCHASE ORDER NUMBER			ORDER DATE		SALESPERSON		OUR ORDER NUMBER	
975499			10/04/99		2		975499	
REORDER	QUANTITY	PO	ITEM NUMBER	DESCRIPTION	UNIT PRICE	AMOUNT		
SHIPPED								
	15		ZIFFEXCELMA	EXCEL MANUAL	25.00	375.00		
1	1		NSSEXCELWKS	ALBERT McDONALD 2-18-00 CONSULTING	700.00	700.00		
<p>PLEASE MAIL CHECK TO OUR                      NEW LOCK BOX:                      NATIONAL SCHOOL SERVICES, INC                      75 REMITTANCE DRIVE                      SUITE 1076                      CHICAGO, IL 60675-1076</p>								
COMMENTS						1,075.00		
I HEREBY ACKNOWLEDGE RECEIPT OF THE ABOVE MATERIALS								
SIGNED _____								
DATE _____								
NORMAL						1,075.00		