

LEGISLATIVE AUDIT COMMISSION



Financial and Management Audit
Teachers Academy for Mathematics and Science

April 2003

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Financial and Management Audit

Teachers Academy for Mathematics and Science April 2003

RECOMMENDATIONS - 9

State Board of Education - 5 Teachers Academy - 4

Background

The Teachers Academy for Mathematics and Science (Academy), located in Chicago, provides professional development services for teachers in academically under-performing schools, which often serve students coming from poor families. It has no relationship with the Illinois Math and Science Academy in Aurora. It is a private, not-for-profit, tax-deductible/tax-exempt organization. It was originally incorporated in 1990 as the Chicago Education Federation.

The Academy was originally established with funding from the U.S. Department of Energy, the National Science Foundation and ISBE. By the mid-1990s, as the Academy's federal funding sources diminished, the Academy turned to the State for financial support, and according to Academy reports, was asked to expand beyond Chicago. In 1998 the Academy offered its first program in Cahokia, and in 2000, the Academy serviced teachers in Chicago, E. St. Louis, Cahokia, Joliet, Aurora and Elgin.

In FY01, a 26-member Board governed the organization with the Academy's Executive Director, Lourdes Monteagudo, overseeing daily operations. The Academy employed 91 staff, including 43 professional development staff who deliver services directly to teachers; 34 support staff, six interns; and four department heads. The Academy is located at 501 W. 35th Street in Chicago.

In May of 2001, House Resolution 304 (Delgado) was adopted directing the Office of the Auditor General to conduct a financial and management audit of the Teachers Academy for Mathematics and Science to determine the following:

- Whether some grants for the Academy were made by the State Board of Education (ISBE) from programs designed only for individual schools and school districts;
- Whether other grants for the Academy made by ISBE were in excess of their entitlement;
- Whether the Academy has met goals it set with ISBE in return for substantial increase in State funding; and
- Whether the substantial expenditure of State funds over the last five years has resulted in improvements in math and science scores at participating schools.

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The Audit contains nine recommendations addressed to the Academy and/or the State Board of Education. Both generally agreed with the recommendations.

The State Board of Education has recommended that funding of the Teachers Academy be discontinued FY04.

Report Conclusions

House Resolution 304 directed auditors to make four determinations. Regarding determination #1, the auditors found that ISBE did make grant awards to the Academy during FY01 from programs that have historically gone to schools and school districts.

Regarding determination #2 and the question of excess entitlement, the report states that Academy funding levels were generally tied to increases in services provided by the Academy for professional development conducted statewide.

Regarding determination #3 and the meeting of goals, the auditors found that ISBE established no formal goals for the Academy to accomplish based on the State funding it received.

Finally, determination #4 concerning student scores at participating schools, the report concluded that there were overall increases in scores for Academy intensive schools in Chicago, Chicago Public Schools overall, and statewide students. Percentage increase for students from Academy schools when compared to CPS schools overall were generally smaller. However, the impact is very difficult to measure because one cannot control many of the variables that impact test results. The Academy also serves academically under-performing schools, which may impact student test scores.

The auditors found that students within the same schools taught by Academy-trained teachers performed better on ISAT tests than did the students taught by non-Academy trained teachers.

The Academy received 94% of its total revenue from State grants, for a total of \$7.78 million in FY01. From FY95 through FY02, \$32.5 million was appropriated to the Academy. However, no formal contract or grant agreement exists between ISBE and the Academy. While the Academy has set internal goals as part of its strategic planning, ISBE does not provide the Academy with specific goals or performance measures.

ISBE allowed the Academy to carry over State funds from one fiscal year to the next although ISBE's documented policy is that carryover of funds is not allowed. ISBE has established no guidelines to govern the Academy's use of State funds. The auditors discovered the following problems:

- **Undocumented Expenditures:** In 9% of the cases tested, the Academy had not maintained supporting receipts for credit card purchases charged to State funds totaling \$25,857.

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- **Food and Refreshments:** In 7% of the cases tested, totaling \$1,929, it was not possible to identify who received meals charged to State funds.
- **Overpayment of Purchased Meals:** The Academy needs a better method for confirming attendance at professional sessions. In five instances the Academy could have saved from \$279 to \$1,439 for meals purchased but not needed.
- **Non-Program Related Expenditures:** The Academy spent \$28,588 for physical fitness and stereo equipment to set up an employee work-out gym in September 2001, but as of October 2002, no gym had been established; the Academy spent \$12,657 to finance food, lodging and rentals for a conference for which only three Academy staff attended; and the Academy spent \$432 on a boat tour, but was unable to provide information on who attended the tour or a receipt for the expenditure.
- **Other Non-Program Related Expenditures:** The Academy made a donation of \$3,678 worth of computer equipment to the Governor's Humanitarian Mission to Cuba, and provided a short-term loan of \$25,767 to prepay expenses for the Humanitarian Mission to Cuba. The Academy was reimbursed approximately one month later, and the expenditure was made from unrestricted Academy funds. The Academy's proposals to ISBE do not contain any requirements that address fixed assets purchased with State funds and disposition of those assets in the event of discontinuance in funding from the State.

The Academy had over \$222,000 of excess materials for distribution to teachers at the end of FY01. The materials were given to the East St. Louis school district.

Academy calculations show \$616,121 of a total of \$896,375 in interest earning since 1992 are from State monies. This interest, after then being combined with other sources of "unrestricted" funds, is used for holiday parties, dining and hotel expenses that are not specifically charged to other funding sources.

The Academy has failed to perform formal performance appraisals of its staff as well as providing a documented basis for salary adjustments, promotion, demotion or layoff. 95% of personnel files tested did not contain evidence that a performance appraisal had been completed during 2000 or 2001.

Recommendations

The responses to the recommendations are from the original audit report. Updated responses from the Teachers Academy were provided by Lourdes Monteagudo, Executive Director, in a letter received on May 22, 2003. An updated response from the State Board of Education was provided by Karl Vogl, Chief Internal Auditor, via email on May 30, 2003.

1. **The Illinois State Board of Education 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.**

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Findings: No formal contract or grant agreement exists between ISBE and the Academy for the funding received through appropriations to ISBE by the General Assembly. The Academy does submit proposals after the appropriation has been passed by the General Assembly and approved by the Governor, and after the fact cost reports to ISBE for funds received as a named entity in the appropriation bills. ISBE views these documents, in total, as an agreement. However, these proposals, developed by the Academy, lack key components to help ensure accountable uses of these funds.

ISBE Response: In the past the agency has considered the annual program descriptions together with the budgets to constitute agreements with the Teachers Academy for Mathematics and Science. However, the State Board agrees to develop more detailed, formal agreements with the Academy in the future, including appropriate usage of funds and terms for the agreement.

- 2. Illinois State Board of Education should enter in to formal agreements with entities, including the Teachers Academy for Mathematics and Science, which receive grant funding from ISBE and maintain documentation.**

Findings: ISBE had formal contracts or grant agreements with 18 of 20 funding recipients tested during the Audit. The Academy was one of the two that did not have a formal agreement with ISBE.

ISBE Response: Currently the agency provides only directly appropriated funding to the Teachers Academy for Mathematics and Science. Should the Academy receive funding under any of the agency's grants in the future, appropriate agreements will be generated. Further, the agency will maintain written agreements and documentation for the use of grant funds distributed to other recipients as circumstances dictate.

- 3. Illinois State Board of Education 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, ISBE should monitor the Academy's performance to ensure State resources are being used for the purposes intended.**

Findings: Auditors reviewed Academy proposals for ISBE funding to ascertain whether they delineate outcome goals the Academy needs to achieve for the funding received. None of the three proposals developed by the Academy to ISBE for FY01 outline outcome goals that needed to be achieved to receive funding from ISBE. Without setting outcome goals for the Academy and monitoring the completion of documented goals, ISBE cannot ensure that State resources are appropriately utilized.

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ISBE Response: The agency agrees to develop outcome goals with the Teachers Academy for Mathematics and Science to include in the annual agreements and to monitor the Academy's performance relative to the established goals.

4. **Illinois State Board of Education 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, ISBE 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 Academy.**

Findings: There is an over-reliance at ISBE on self-reporting by the Academy. The Academy submits program information to ISBE reporting on the number of teachers served, activities conducted by the Academy throughout the year, student test score evaluations, as well as financial information on expenditures. ISBE does not verify this information submitted by the Academy.

ISBE Response: The agency agrees to monitor the performance of the Teachers Academy for Mathematics and Science to ensure that services described in the annual agreements are delivered, as well as to require an evaluation of the information presented in the Academy's reports.

5. **Teachers Academy for Mathematics and Science should take the necessary steps to ensure that expenditures charged to State funds:**
 - **Are adequately documented and supported by original receipts;**
 - **Have adequate support for who benefited from meals charged to the agency credit cards;**
 - **Take the appropriate use of sales tax benefits of being a not-for-profit organization; and**
 - **Are program related expenses that fall within the purposes for the funding provided by the General Assembly.**

The Illinois State Board of Education should develop administrative rules that identify what are allowable and unallowable uses of State funds provided grantees, including the Academy. Further, ISBE should follow up on questioned expenditures to see if there is any need to recover State funds.

Findings: The auditors found that proposals developed by the Academy do not contain any guidelines on how State funds can be expended. Additionally there is lack of direction from ISBE on acceptable uses of State funds and an over-reliance at ISBE on self-reporting of expenditures at the Academy. The Academy maintains policies and

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procedures for accounting and financial control. The auditors tested 100 transactions totaling \$1,000,724 with the following results:

- In 9 of 100 cases, the Academy had not maintained supporting receipts for credit card purchases;
- In 7 of 100 cases, meals were charged to State funds and it was not possible to identify who received the meals purchased;
- Lack of attendance at some professional development session resulted in purchases of meals and refreshments that were not needed;
- The Academy spent \$28,588 on physical fitness and stereo equipment for an employee work-out gym which was not operational one year after the expenditure;
- \$12,657 was spent to finance a conference at which only three Academy staff attended;
- \$432 was spent on a boat tour of Chicago;
- The Academy made a donation of \$3,678 worth of computer equipment to the Governor's Humanitarian Mission to Cuba and they also made a short-term loan of \$25,767 to prepay expenses for the Mission;
- The Academy charged \$3,193 for Chicago area hotels with little documentation. Some employees on the account summary were Chicago residents;
- The Academy charged to State funds \$349 in travel and hotel reimbursement for an employee for expenses in the employee's usual commute area. Another employee was allowed to rent a Ford Expedition in the same city as his or her residence;
- In two cases sampled, the Academy paid \$3,891 to contractual consultants without being able to produce a contract or agreement;
- In five cases, the Academy paid \$36,911 to consultants without having a detailed billing of the services performed for the expenditures; and
- The Academy doesn't always take advantage of its tax-exempt status.

TAMS Response: The Academy agrees that guidelines on how organization can spend State funds are an important management control to ensure accountability, especially when the organization is expected to adhere to restrictions imposed by the General Assembly or the State agency.

The Academy is committed to good management practices. It maintains policies and procedures for accounting and financial controls. These include several levels of approvals by managers and officers, before funds are paid out to support expenditures. Unfortunately, during the FY2000 and FY2001 the Academy faced unique challenges, mainly; a great deal of confusion by the funding agency as to the financial resources available to provide services in East St. Louis and Joliet, having to transport its staff to East St. Louis on a continuous basis to provide quality instruction and in-class visits. In all instances cited, the Academy's internal controls were not violated, and thus all expenditures were certified to be legitimate business purposes and authorized by at least one manager and one officer.

However, in FY2002, the Academy reorganized its management team and since then has taken steps to insure that:

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- Forms used to reimburse economically challenged parents, specify the expenses the parents incurred to participate in the program.
- Credit card statements be backed by original receipts when used for travel, lodging or to pay for food. The receipts also list who benefited from the expense. Managers and officers will be sanctioned if they do not adhere to these policies.
- A more cost-effective system is used to estimate attendance by participants. Since the beginning of FY2002, the Academy has established the policy whenever food or refreshments are ordered for an activity, the expected head count is lowered by 10%, which is the average rate of absence suggested by trend data.
- The Academy has created a system to ensure that taxes are not paid, and that refunds be pursued from vendors who question and refuse to allow tax exempt purchases by the Academy's employees.

As a private non-for profit corporation, and in the absence of any requirement, certifications and assurances imposed by ISBE, the Academy has followed its own policies and business judgment to deal with program related expenses as well as with Non-Program related Expenses. Although the Academy revenues have become increasingly state funds, the Academy has alternative sources of funds, which are used whenever, the organization decides that it must pay for a not-state related expense, whether that expense be programmatic or not.

The Academy recognizes that there are instances where the expenditure incurred and charged to State funds may have been caused by poor business judgments and stands ready to take responsibility for them, as ISBE may require.

Auditor Note: The Academy also provided responses to individually questioned expenditures. The full text of these responses can be found in Appendix F.

ISBE Response: The ISBE agrees to develop expenditure guidelines for the use of State funds by the Teachers Academy fro Mathematics and Science. The agency will also review the questioned costs listed in this report to determine any need to recover State funds.

TAMS Update: In late April, the Academy took steps to communicate with officials at ISBE to seek guidance on addressing Recommendation #5, especially as it pertains to allowable and unallowable uses of state funds. It was stipulated that this would be addressed as part of the written agreement recommended in Recommendation #1.

In addition, the Academy conferred with ISBE and recognized that in two instances, the decisions made by the Academy might have been considered unallowable, whether the appropriation made was a "legislative appropriation" or a "grant" and reimbursed the State \$29,020 for the gym equipment, and the staff development activity "An Architectural Tour of Chicago."

The Academy's Board of Trustees and Executive Director had recognized that the purchase of the gym equipment was unauthorized, and that its use by employees could impose potential liabilities that would not be fiscally responsible to assume. To that end,

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the equipment was stored and never used. The Academy's Board has decided to donate all the equipment purchased to the Chicago Public Schools to be given, at their discretion, to schools to be used by students supervised by their physical education teachers.

In addition, the Academy has replaced the position of Chief Financial Officer and Chief Operating Officer with the position of Chief Administrative Officer, who will be responsible to oversee compliance with all State rules and regulations.

- 6. The Teachers Academy for Mathematics and Science should ensure that materials for teacher's purchases with State funds are only distributed to those who are actually participants in Academy's professional development program. Further, the Academy should, after consultation with Illinois State Board of Education officials, explore other ways to dispose of excess material inventories such as using the materials in subsequent years or returning to vendors for credit. Additionally, the Academy should follow up with East St. Louis district officials to ascertain to who the materials were distributed to ensure that State resources were used for appropriate purposes.**

Findings: The Academy had over \$222,000 of excess materials for distribution to teachers at the end of FY01 that were provided to the East St. Louis school district. These materials were in addition to materials provided to teachers who were enrolled in the Academy program in that district.

TAMS Response: In the future, the Academy will consult with ISBE and will follow its written directives as to the disposition of excess materials. However, the Academy's external auditor, John E. Wilson, LTD. prompted the distribution of materials. The auditors communicated to the Academy's management that keeping the materials, would have violated the rules that govern carry-over funds, since the materials would have gone to teachers who were not the intended beneficiaries. The East St. Louis district had the greatest number of intended beneficiaries. The excess resulted from having bought materials for teachers who were to have participated in "Project Start-Up", which was cancelled by ISBE after the materials had been purchased.

The Academy has secured a letter from Dr. Stephanie Carpenter, Assistant Superintendent for Curriculum and Instruction, acknowledging the receipt of the materials as well as letters from principals with sheets signed by the Academy's trained teachers that received the extra materials.

TAMS Update: This recommendation was already addressed by the Teachers Academy by securing and forwarding to the Office of the Auditor General the signature of the participants in East St. Louis that received additional instructional materials.

- 7. The Teachers Academy for Mathematics and Science should use revenue, such as interest income, generated from State funds for State program purpose.**

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Additionally, the Academy should take steps to ensure that only true sources of unrestricted funds are deposited into this fund and that revenue collected for special projects should clearly be used to offset expenses of those activities before charging State funds for the expenses.

The ISBE 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, ISBE should examine the Academy's use of interest revenue and recover any funds that were used for non-grant purposes.

Findings: The Illinois Grant Funds Recovery Act requires that interest earned on grant funds become part of the grant principal and is to be treated accordingly. Also interest earned on grant funds during the grant period must be spent by the grantee during the grant period, but only for purposes authorized by the grant. Academy calculations show \$616,121 of a total of \$896,375 (69%) on interest earning since 1992 are from State monies. The Academy recognizes this revenue as being able to be used on any expenditure. This interest, after then being combined with other sources of "unrestricted" funds, is used for such purposes as holiday parties, dining and hotel expenses that are not specifically charged to other funding sources.

TAMS Response: The Academy has always considered the money it has received to be "legislative appropriations to a named entity" and not ISBE agency grants as defined by 30 ILCS 705-2. Accordingly its interest has been held in a non-state account.

It should be noted that the amount of interest cited as earned by State funds is overstated and resulted from an existing Academy document, which included interest earned from ALL funds. The Academy has taken steps to secure an independent, in depth analysis of the interest earned from State funds as well as the identification of expenses paid with the interest to be submitted to ISBE as requested. In addition, the Academy has taken steps to further segregate in its books the sources of unrestricted funds so that in the future, there would no confusion over its origin or its use. The Academy has also taken steps to ensure that revenues collected for special projects are used to pay for those activities.

If it determined that the Academy's appropriation must become subject to Illinois Grant Recovery Act, it will prospectively adhere to its restrictions.

Auditor Comment: The interest amounts detailed in the audit report came from an Academy document which **did** break out interest earned on State funds from interest earned on donations or Chicago Public School workshops.

ISBE Response: The ISBE agrees to monitor the use of interest by the Teachers Academy for Mathematics and Science. Further, the Board will also examine the Academy's use of interest earned on State funds and recover any funds that were used for purposes other than described in the underlying agreements.

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TAMS Update: Although the Academy sustains that, due to its status as a legislative appropriation, it was not bound to the Grant Recovery Act and had discretion on the use of the interest earned on State moneys, the Academy agreed to submit itself to a review of its funds, by an independent financial consultant, the Parson Financial Consulting Group to assist ISBE determine the “accurate” amount of interest earned in the five year period of the audit (FY 1997 to FY 2001) from the State appropriation and “grants” for work in East St. Louis and Joliet , and the use of the money. ISBE indicated that using the money to purchase and rehabilitate space to be used for the activities of the program would have been considered “allowable” expenses.

The Parson Financial Consulting Group report from May 2003 finds that the “accurate” amount of interest earned by State funds, during the five year period, was \$320,600. The balance of the interest earned reported by the auditors, \$695,947.47, was the total amount of interest earned from ALL funds including all unrestricted Academy funds.

In FY 2001, the Academy purchased property to develop an adequate teacher training center, and to house its operations. The \$320,600 of interest earned from State dollars was pooled with unrestricted Academy dollars to rehabilitate space in the building used to provide direct services to teachers, which is an allowable expense. Expenses incurred by the Teachers Academy for the purchase and rehabilitation of the training rooms to conduct the professional development activities, exceeded the available interest by \$1,038,763.

- 8. The Teachers Academy for Mathematics and Science should ensure that annual performance appraisals of its employees are conducted to provide documentation of the individual’s performance, as required by the Academy’s Employee Manual.**

Findings: The Academy has failed to perform formal performance appraisals of its staff in violation of its Employee Manual. 95% of personnel files tested did not contain evidence that a performance appraisal had been completed during 2000 or 2001.

TAMS Response: In mid-fiscal 2002, the academy underwent a complete reorganization, replacing key managers, and strengthening the Human Resource Office. Since then, the Human Resource Office has been put in charge of overseeing that the appraisals are conducted annually and that employee records show proper documentation. This measure was taken to avoid the effects of our former decentralized system, where individual managers conducted and kept the records of the evaluations without sending copies to the Human Resource Office.

TAMS Update: The Academy continues to ensure that the Academy’s policy on performance evaluations is adhered to, and the documentation is readily available for review.

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9. **The ISBE should develop criteria, to be included in formal grant agreements with the Teachers Academy for Mathematics and Science, that returns fixed assets purchases with State funds by the Academy to the State in the event ISBE discontinues funding of the Academy program.**

Findings: Proposals between the Academy and ISBE do not contain any requirements that address fixed assets purchased with State funds and disposition of those assets. The Academy does maintain a fixed asset listing which includes information on the cost of the item, acquisition date, description, serial number, and useful life. The list does not identify the source of funds used to purchase the asset, staff indicated that most items were purchased with State funds.

ISBE Response: The agency agrees to develop criteria for the return of fixed assets purchased with State funds in case the legislature discontinues funding of Academy programs. Such criteria will be incorporated in the annual agreements with the Academy.

Final ISBE Update on the Audit Report

The State Board of Education has recommended that funding of the Teachers Academy for Mathematics and Science be discontinued. The FY04 budget now before the General Assembly does not include an appropriation for the Academy. In light of this situation, some of the actions recommended by the Auditor General may not be applicable. However, the Agency has developed a plan for implementing the Auditor General's recommendations, which was sent to the Academy in May. The plan addresses the resolution of all the recommendations the Agency was required to respond to. Further, the Academy has refunded \$29,020.00 of the expenditures questioned under Recommendation 5. The Agency will work with the Academy to resolve the audit issues as necessary under the circumstances.