



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

Tennessee Recovery Act Audit Internal Controls at Three LEAs



Tennessee State Capitol

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IV

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Dr. Timothy K. Webb
Commissioner of Education
Tennessee Department of Education
710 James Robertson Parkway
Andrew Johnson Tower, 6th Floor
Nashville, TN 37243-0382

Dear Dr. Webb:

This **Final Audit Report**, entitled *Internal Control Reviews at Three Local Educational Agencies (LEA) in Tennessee*, presents the results of work at Giles County Board of Education (Giles), Metropolitan Nashville Public Schools (MNPS), and Jackson-Madison County School System (JMCSS). The objective was to determine whether the LEAs designed systems of internal control over data quality, cash management, subrecipient monitoring, and use of funds that were sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance.

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by the Act. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related ARRA funds reach intended recipients and achieve intended results. This includes effective implementation and control of funds at the Federal level, ensuring that recipients understand requirements and have proper controls in place for 1) administering and reporting ARRA funds, and 2) promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our review was to determine whether local educational agencies (LEA) reviewed in Tennessee had designed systems of internal control that were sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Our review focused on the design of subrecipient controls over data quality, cash management, subrecipient monitoring, and use of funds for Title I, Part A of the Elementary and Secondary Education Act (Title I); Individuals with Disability Education Act, Part B (IDEA); and the State Fiscal Stabilization Fund (SFSF). As noted in the State level report, all Vocational Rehabilitation State Grant (VR) stimulus funds were retained by the prime recipient, the Tennessee Department of Human Services.

AUDIT RESULTS

In our review of the three LEAs, we found nothing that would indicate that the LEAs did not have sufficient controls in place to manage ARRA funds for Title I, IDEA, and SFSF funds. However, we found that at the Jackson-Madison County School System, the Madison County Finance Department (MCFD) had not resolved findings from its Fiscal Year 2008 Office of Management and Budget (OMB) Circular A-133 audit and did not have formal procedures for granting access to its computer system.

MCFD is responsible for maintaining the County's official accounting system for the receipt and disbursement of local, State, and Federal funds. JMCSS has read-only access to MCFD's accounting system and uses monthly reports from the system to monitor program expenditures. Budgeting and approval of expenditures are controlled at JMCSS in each Federal program office, with final approval by the school superintendent.

The Tennessee Comptroller of the Treasury's A-133 audits for FY June 30, 2008, and June 30, 2009, indicated that the MCFD does not have the ability to develop year-end financial statements. In the latest report, Madison County was cited as not having the staff and technical skills needed to prepare Generally Accepted Accounting Principles (GAAP) year-end financial statements and disclosures. In addition, the report noted that the general ledger account balance in the School Federal Projects fund was not materially correct, and salaries exceeded line-item appropriations in the School Federal Projects fund because of untimely drawdowns from the State by the MCFD. The Tennessee Comptroller Office made several recommendations which, if implemented, should prevent the occurrence of the above conditions. The recommendations included having staff members trained in financial statement preparation, developing a process for reviewing and adjusting general ledger account balances, and requesting grant funds on a timely basis. We suggest that MCFD implement these recommendations to improve its financial reporting capabilities to ensure that ARRA-related information is reported accurately.

In addition, we found that MCFD does not have formal procedures for granting access to its accounting system. MCFD uses a commercial accounting software package and uses a request form to notify the accounting software vendor to add, remove, or modify user access. However, no formal written policies and procedures have been developed for determining who should be granted access or the level of access to be granted. MCFD's Finance Director provided us with a listing of JMCSS staff, their level of access, and a statement that all requests must come through his office; however, we did not receive a formal written policy. We suggest that MCFD implement formal policies and procedures related to access to the financial accounting systems.

We provided the results of our review and suggestions to TDOE and the three LEAs and none of them had any comments.

BACKGROUND

Tennessee Department of Education (TDOE) administers the State’s Pre-K through 12 public school system. Created in 1923, TDOE supervises the allocation of State and Federal funds to 136 LEAs for 2 of the 3 U.S. Department of Education (Department) programs under review –Title I and IDEA. The Tennessee Department of Human Services (TDHS) provides oversight of the VR program; and the Governor’s Office of Tennessee Recovery Act Management (TRAM) provides oversight of the SFSF funds.

TDOE’s total ARRA allocations for the Title I and IDEA programs were \$194 million and \$230 million, respectively. On April 1, 2009, the Department awarded 50 percent of these funds under each State’s existing approved Elementary and Secondary Education Act Consolidated Application. Table 1 shows the ARRA allocations for the three LEAs reviewed. Collectively, Giles, JMCSS, and MNPS were authorized to draw down approximately \$14.07 million for Title I and \$12.57 million for IDEA as of April 1, 2009. Federal funds related to the Title I and IDEA programs in Tennessee are drawn down on a reimbursement basis.

Table 1. ARRA Allocations for Giles, JMCSS, and MNPS for 2009 (Millions)¹

LEA	Title I		IDEA	
	Total Allocated	Available as of April 1, 2009	Total Allocated	Available as of April 1, 2009
Giles	\$.4972	\$.2486	\$.9765	\$.4883
JMCSS	\$ 3.010	\$ 1.505	\$ 3.776	\$ 1.888
MNPS	\$ 24.64	\$ 12.32	\$ 20.37	\$ 10.19
Total	\$ 28.15	\$ 14.07	\$ 25.12	\$ 12.57

Tennessee’s total ARRA allocation for SFSF was \$947 million with 81.8 percent awarded under the Education Stabilization Fund and the remaining 18.2 percent awarded under the Government Services Fund. These funds were granted under the State’s *Application for Initial Funding under the SFSF Program* which was developed by TRAM. At the time of our fieldwork, estimated SFSF allocations at the LEA level were not available on Tennessee’s Recovery Web site. However, according to interview results with a TDOE Official, approximately \$500 million of the SFSF funds were to be made available to the LEAs.

OBJECTIVE, SCOPE, AND METHODOLOGY

We gained an understanding of the system of internal controls that Giles, MNPS, and JMCSS planned to use in administering ARRA funds for the Title I, IDEA, and SFSF programs. Because of the limited scope of our review, there is a possibility that weaknesses may exist in areas we did not examine. Our review was limited to internal controls in place during our fieldwork period as they

¹ Table calculations may not sum due to rounding.

relate to data quality, cash management, subrecipient monitoring, and use of funds. We did not evaluate or test the implementation of controls.

In accordance with the *U.S. Department of Education Office of Inspector General American Recovery and Reinvestment Act of 2009 Review Guide* and an LEA Selection Methodology Parameter Document developed by ED-OIG, the three LEAs were selected using the following process:

- Identified the number of LEAs in the State of Tennessee;
- Obtained estimated ARRA allocations at the LEA level for Title I and IDEA and stratified the results into three categories (i.e., small, medium, and large); and
- Selected an LEA from each category that was determined, based on the auditor's judgment, to exemplify the most risk. Risk was assessed by reviewing the following:
 - Office of Risk Management's Top 100 List (2007)
 - Tennessee Single Audit Reports for FY 2007 and FY 2008
 - TDOE Interview Results
 - TDOE Monitoring Reviews by the U.S. Department of Education
 - OIG Hotline Complaints
 - FY 2007 Federal Audit Clearinghouse Single Audit Reports

We conducted fieldwork at the three LEAs from August 2009 to September 2009. We provided the results of our review and suggestions to the LEAs on November 12, 2009.

To gain an understanding and assess the system of internal controls that Giles, MNPS, and JMCSS planned at the time of our field work, we

- Reviewed prior audit reports and other applicable reports issued by the Government Accountability Office, the U.S. Department of Education's Office of Inspector General, the U.S. Department of Education's Office of Elementary and Secondary Education, the U.S. Department of Education's Office of Special Education and Rehabilitative Services, and the Tennessee Comptroller of the Treasury – Division of State Audit;
- Reviewed applicable legislation, regulations, and guidance related to ARRA;
- Identified ARRA funds allocated to Giles, MNPS, and JMCSS for Title I, IDEA, and SFSF;
- Identified ARRA funds drawn down for Title I, IDEA, and SFSF;
- Obtained and reviewed Tennessee's approved Part I SFSF application and amended application;
- Interviewed TDOE's, Giles', MNPS', and JMCSS' program officials and budget/fiscal officials for Title I, IDEA, and SFSF;
- Obtained and reviewed Giles', MNPS', and JMCSS' written policies and procedures related to data quality, cash management, subrecipient monitoring, and use of funds for Title I, IDEA, and SFSF;
- Obtained and reviewed TDOE's monitoring protocols for Title I, IDEA and SFSF;
- Interviewed officials at TDOE and TRAM;
- Interviewed officials at the Tennessee Comptroller of the Treasury, Division of State Audit.

ADMINISTRATIVE MATTERS

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

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports and other documents issued by the OIG are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation and assistance extended by your staff and the LEAs' staff during the reviews. Because our audit did not disclose any significant instances of noncompliance with the ARRA areas identified in our audit objective and because our report does not contain any recommended corrective actions, no action on your part is necessary. If you have any questions, please contact me at (404) 974-9416, or Christopher Gamble, Assistant Regional Inspector General for Audit, at (404) 974-9417.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

cc:

Thelma Meléndez de Santa Ana, Ph.D, Assistant Secretary,
Office of Elementary and Secondary Education

Alexa Posny, Assistant Secretary,
Office of Special Education and Rehabilitative Services

Tee Jackson, Director, Giles County Board of Education

Dr. Jesse Register, Director, Metropolitan Nashville Public Schools

Dr. Nancy Zambito, Superintendent, Jackson-Madison County School System

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