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OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
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Dr. Candice McQueen
Commissioner
Tennessee Department of Education
710 James Robertson Parkway
Nashville, TN 37243

Dear Dr. McQueen:

This final audit report, “The Tennessee Department of Education’s Administration of a Race to the Top Grant,” presents the results of our audit of selected aspects of how the Tennessee Department of Education (Tennessee) administered a \$500.7 million Race to the Top grant. We audited three of the six educational topic areas on which Tennessee spent Race to the Top funds: Area C, “Data Systems to Support Instruction” (Area C); Area D, “Great Teachers and Leaders” (Area D); and Area E, “Turning Around the Lowest-Achieving Schools” (Area E).¹

The objectives of our audit were to determine whether Tennessee

1. accurately and completely reported Area D grant performance data to the U.S. Department of Education (Department),²
2. spent Race to the Top funds only on allowable items and activities and in accordance with program requirements and the State of Tennessee Office of the Governor’s approved grant application,³ and
3. ensured that each local educational agency (LEA) receiving a Race to the Top subgrant from Tennessee spent the funds only on allowable items and activities and in accordance with program requirements and the approved grant application.

We audited Tennessee. To achieve our objectives, we judgmentally selected two LEAs: Hamilton County Department of Education (Hamilton) and the Achievement School District.⁴

¹ See a list of all [six areas](#) in the [Background](#) section of this report.

² The Department did not require Tennessee to report any Area C performance measures. The Department required Tennessee to report only two Area E performance measures but we chose not to audit these performance measures.

³ The State of Tennessee Office of the Governor applied for the Race to the Top grant on behalf of the Tennessee Department of Education.

⁴ We selected Hamilton based on the amount of funds it received and selected risk factors, such as prior audit findings. We selected the Achievement School District because it was a new school district and previous audit reports of it disclosed findings relevant to the administration of Federal funds. (See “[Sampling Methodology](#)” in the [Objectives, Scope, and Methodology](#) section of this report).

For the first objective, our audit covered Tennessee's 2012–2013 annual performance report only for Area D. For the second and third objectives, our audit covered July 1, 2010, through September 30, 2013, for Areas C and D at Tennessee and Hamilton. Also, for our second and third objectives, our audit covered July 1, 2010, through September 30, 2014, for Area E at Tennessee (Achievement School District related only) and the Achievement School District.

We found that Tennessee (1) accurately and completely reported Area D grant performance data to the Department in its 2012–2013 annual performance report, (2) spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements and the approved grant application, and (3) ensured that Hamilton spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements and the approved grant application.⁵

However, we found that Tennessee did not ensure that the Achievement School District developed and implemented adequate internal control activities over retaining documentation, contracting, approving purchases, using credit cards, recording adjusting journal entries, and classifying expenditures. In addition, we found that Tennessee and the Achievement School District did not spend Race to the Top funds for Area E only on allowable items and activities and in accordance with program requirements and the approved grant application. We examined supporting documentation for 203 judgmentally selected transactions recording \$6,455,592 of the 57,957 transactions recording \$27,755,759 in personnel and nonpersonnel expenditures that Tennessee and the Achievement School District charged to the Race to the Top grant for Area E from July 1, 2010, through September 30, 2014. (We limited our sample of transactions to those recording nonpersonnel expenditures.) We found that Tennessee and the Achievement School District spent \$101,903 (about 0.4 percent of the \$27,755,759 in personnel and nonpersonnel expenditures) on unallowable items and activities and did not adequately document another \$141,968 (about 0.5 percent of the \$27,755,759 in personnel and nonpersonnel expenditures).

In the draft of this report, we recommended that the Department require Tennessee to increase its oversight of the Achievement School District and ensure that the Achievement School District develops and implements internal control activities that provide reasonable assurance that Federal funds are accurately accounted for and spent only for allowable purposes. We also recommended that the Department require Tennessee to return to the Department the \$100,992 in Race to the Top funds that it and the Achievement School District spent on unallowable items and activities.⁶ In addition, we recommended that the Department require Tennessee and the Achievement School District to provide to the Department adequate documentation to show that the \$141,968 was used for allowable items and activities or return those funds to the Department.

In its comments on the draft of this report, Tennessee agreed with all three of our findings and the recommendations for Finding No. 2. Tennessee also stated that it worked with the Department to address the issues of unallowable and inadequately documented expenditures that we identified in Finding No. 3, reclassifying the unallowable and inadequately documented expenditures to local sources of funds. After receiving approval from the Department, Tennessee applied expenditures for allowable Race to the Top items and activities before the

⁵ Because we did not select the LEAs or expenditures as part of a statistical sample, our results might not be representative of the entire universes and, therefore, cannot be projected to the universes (See "[Sampling Methodology](#)" in the [Objectives, Scope, and Methodology](#) section of this report).

⁶ We confirmed that the Achievement School District returned \$1,055 to the Race to the Top grant after we brought \$102,047 in unallowable expenditures to its attention.

expiration of the period of availability of funds. Therefore, Tennessee suggested that we revise the recommendations for Finding No. 3. We included the full text of Tennessee's comments on the draft of this report as [Attachment 2](#).

Based on Tennessee's comments and our discussion with the Executive Director of Operational Strategy for Tennessee, we reduced the total amount of unallowable costs identified in the draft of this report by \$143. We also removed one recommendation because Tennessee provided a finalized and approved version of the Achievement School District's financial policies and procedures. Finally, we modified Recommendations 3.1 and 3.2 to reflect the corrective actions that Tennessee stated that it took after we notified it of the unallowable and inadequately documented transactions. We now recommend that the Department require Tennessee to provide accounting records showing it reclassified the \$242,816 that it and the Achievement School District used for unallowable items and activities or for which they did not provide adequate documentation. We also recommend that the Department require Tennessee to provide it with accounting records showing that Tennessee reclassified the \$242,816 from the Race to the Top Grant to local sources of funds and supporting documentation proving that the transactions charged to the Race to the Top grant in place of the \$242,816 comply with Federal fiscal requirements and the approved grant application.

BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided \$4.35 billion for the Race to the Top fund, a competitive grant program designed to encourage and reward States that were

1. creating the conditions for education innovation and reform;
2. achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing the achievement gaps, improving high school graduation rates, and ensuring student preparation for success in college and careers; and
3. implementing ambitious plans in four core education reform areas: (a) adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy; (b) building data systems that measure student growth and success and inform teachers and principals about how they can improve instruction; (c) recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and (d) turning around the lowest achieving schools.

The Department awarded grants to 11 States and the District of Columbia (Phase 1 and Phase 2 awards) from the \$4.35 billion in Race to the Top funds appropriated under the Recovery Act. The Department also used funds appropriated under the Recovery Act to make two awards totaling about \$330 million under the Race to the Top Assessment program to the Partnership for the Assessment of Readiness for College and Careers and the Smarter Balanced

Assessment Consortium. The Department made about \$200 million in awards to seven States (Phase 3 awards) from funds appropriated for fiscal year 2011.

Section 14006(c) of the Recovery Act requires each State that is awarded a Race to the Top grant to allocate at least 50 percent of the funds to participating LEAs and charter schools. The State must allocate these funds according to the percentage of funding that each participating LEA and charter school received under Part A of Title I of the Elementary and Secondary Education Act of 1965, as amended, for the most recent year. States have considerable flexibility in allocating the remaining 50 percent of their Race to the Top funds. The funds may be used for State-level activities, supplemental disbursements to participating LEAs, and other purposes as proposed in the approved grant application. The conditions of its grant award required Tennessee to use grant funds in a manner consistent with the implementation of its Race to the Top plan and in support of accomplishing its proposed milestones. Tennessee was also required to follow 2 Code of Federal Regulations (C.F.R.) Part 225, "Cost Principles for State, Local, and Indian Tribal Governments," when determining allowable uses of funds.

Each State receiving a Race to the Top grant must validate and certify the accuracy of the data in annual performance reports submitted by the State to the Department. According to the Department, before the end of the annual reporting period (July 1 through June 30), each State submits information about outcomes to date, the State's performance against the measures established in the State's application, and other relevant data. The Department reviews each State's preliminary data for completeness and reasonableness. A State must address the Department's comments, if any, and then resubmit and validate sections of the annual performance report in the Department's annual performance report collection system. The State then must certify the accuracy of the entire annual performance report and submit the final version through the annual performance report collection system.

The Department awarded the State of Tennessee Office of the Governor a \$500,741,220 Race to the Top grant. The State of Tennessee Office of the Governor's application included the following six educational topic areas on which the State of Tennessee planned to spend Race to the Top funds:

- Area A, "State Success Factors;"
- Area B, "Standards and Assessments;"
- Area C, "Data Systems to Support Instruction;"
- Area D, "Great Teachers and Leaders;"
- Area E, "Turning Around the Lowest-Achieving Schools;" and
- Priority area, "STEM."

Tennessee's scope of work required the reporting of performance measures on three of its Race to the Top initiatives for Area D: (1) improving teacher and principal effectiveness based on performance, (2) ensuring equitable distribution of effective teachers and principals, and

(3) improving the effectiveness of teacher and principal preparation programs. Under these initiatives, Tennessee reported progress data on 39 performance measures.

On January 16, 2010, the State of Tennessee legislature authorized the creation of the Achievement School District. This authorization permitted Tennessee to remove persistently low-achieving schools from their home LEAs and place them under the control of the Achievement School District. The Achievement School District would be led by a superintendent reporting directly to Tennessee’s Commissioner of Education. Tennessee used part of the 50-percent portion of the Race to the Top grant that was not required to be distributed to participating LEAs and charter schools to create the Achievement School District and fund its operations. From July 1, 2010, through September 30, 2013, Tennessee spent \$21,145,861 of Race to the Top funds designated for Area E on the Achievement School District. Tennessee also spent \$26,511,957 of Race to the Top funds for Area E funds on other activities. Before October 1, 2013, Tennessee maintained all fiscal records relevant to the Achievement School District’s activities. On October 1, 2013, when its payroll and accounting system became operational, the Achievement School District began maintaining its own fiscal records. According to its records, from October 1, 2013, through September 30, 2014, the Achievement School District spent another \$6,609,898 of the Race to the Top funds designated for Area E on organizing and operating costs.

As of September 30, 2013, Tennessee and the participating LEAs and charter schools had spent about \$309 million of the approximately \$501 million awarded to the State of Tennessee Office of the Governor. Table 1 shows the allocations and expenditures for Tennessee (including the Achievement School District) and Hamilton.

Table 1. Race to the Top Allocations and Expenditures as of September 30, 2013

Entity	Total Allocation	Total Expenditures for Educational Topic Areas C and D	Total Expenditures for All Educational Topic Areas
Tennessee	\$250,370,610*	\$57,326,626	\$128,733,609
Hamilton	\$10,927,153	\$5,949,913	\$8,913,814
Total	\$261,297,763	\$63,276,539	\$137,647,423

*This amount represents about 50 percent of the total Race to the Top grant award.

AUDIT RESULTS

The objectives of our audit were to determine whether Tennessee (1) accurately and completely reported Area D grant performance data to the Department, (2) spent Race to the Top funds only on allowable items and activities and in accordance with program requirements and the approved grant application, and (3) ensured that each LEA receiving a Race to the Top subgrant from Tennessee spent the funds only on allowable items and activities and in accordance with program requirements and the approved grant application.

We found that Tennessee (1) accurately and completely reported selected Area D grant performance data to the Department in its 2012–2013 annual performance report, (2) spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements and the approved grant application, and (3) ensured that Hamilton spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements and the approved grant application. However, we found that Tennessee did not ensure that the Achievement School District developed and implemented adequate internal control activities. Also, we found that Tennessee and the Achievement School District spent \$101,903 of Race to the Top funds for Area E on unallowable items and activities and did not retain adequate documentation to show that Race to the Top transactions recording expenditures for Area E totaling \$141,968 were allowable.

In its comments on the draft of this report, Tennessee agreed with all three of our findings and the recommendations for Finding No. 2. Tennessee also stated that it worked with the Department to address the issues of unallowable and inadequately documented expenditures that we identified in Finding No. 3, reclassifying the unallowable and inadequately documented expenditures to local sources of funds. After receiving approval from the Department, Tennessee applied expenditures for allowable Race to the Top items and activities before the expiration of the period of availability of funds. Therefore, Tennessee suggested that we revise the recommendations for Finding No. 3. With its comments, Tennessee provided a finalized and approved version of the Achievement School District’s financial policies and procedures (January 2015) and attached a spreadsheet showing the unallowable and inadequately documented expenditures and adjusting journal entries that removed funds from the Race to the Top grant. We summarized Tennessee’s comments at the end of each finding. The full text of Tennessee’s comments on the draft of this report is included as [Attachment 2](#). We did not include the attachments that Tennessee provided with its comments. However, we will make the two attachments available on request.

Based on Tennessee’s comments and our discussion with the Executive Director of Operational Strategy for Tennessee, we reduced the total amount of unallowable costs identified in the draft of this report by \$143. We also removed one recommendation because Tennessee provided a finalized and approved version of the Achievement School District’s financial policies and procedures. Finally, we modified Recommendations 3.1 and 3.2 to reflect the corrective actions that Tennessee took after we notified it of the unallowable and inadequately documented transactions.

FINDING NO. 1 – Tennessee Accurately Reported Area D Grant Performance Data and Ensured Area C and D Expenditures Were Allowable

We found that Tennessee accurately and completely reported Area D grant performance data to the Department in its 2012–2013 annual performance report. We judgmentally selected 10 of the 39 (26 percent) reported Area D grant performance measures that covered improving teacher and principal effectiveness based on performance, ensuring equitable distribution of effective teachers and principals, and improving the effectiveness of teacher and principal preparation programs (see [Selection of Area D Performance Measures](#)). The 10 performance measures that we selected, and for which we reviewed supporting documentation, included LEAs’ evaluation systems, teacher and principal effectiveness ratings in schools with varying minority and poverty rates, and publicly available growth data on graduates of teacher and principal

preparation programs in the State. Tennessee provided supporting documentation that was sufficient to verify the accuracy and completeness of all 10 of the reported Area D grant performance measures that we examined.

We also found that Tennessee spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements and the approved grant application. We judgmentally selected 40 transactions recording \$7,170,170 (13 percent) of the 14,771 transactions recording \$57,326,626 in expenditures that Tennessee charged to its Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013 (see [Selection of Expenditures for Areas C and D](#)). Tennessee provided supporting documentation that was sufficient to confirm that it spent all \$7,170,170 on allowable items and activities and in accordance with program requirements and the approved grant application.

Additionally, we found that Tennessee ensured that Hamilton spent Race to the Top funds for Areas C and D that we examined only on allowable items and activities and in accordance with program requirements, the approved grant application, and Hamilton's detailed scope of work. We judgmentally selected 23 transactions recording \$1,064,770 (18 percent) of the 1,442 transactions recording \$5,949,913 in expenditures that Hamilton charged to the Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013. We also judgmentally selected 8 transactions recording \$299,326 (23 percent) of the 485 transactions recording \$1,290,115 in expenditures that Hamilton charged from July 1, 2010, through September 30, 2013, to a teacher and principal residency grant it received from Tennessee's portion of the Race to the Top funds (see [Selection of Expenditures for Areas C and D](#)). Hamilton provided supporting documentation sufficient to confirm that it spent the \$1,364,096 (\$1,064,770 plus \$299,326) only on allowable items and activities and in accordance with program requirements and the approved grant application.

Because we did not identify any ways in which Tennessee and Hamilton could improve their administration and use of Race to the Top funds for Areas C and D, we do not make any recommendations directed towards Tennessee's oversight of Areas C or D or Tennessee's and Hamilton's use of Race to the Top funds for Areas C and D.

Auditee Comments

Tennessee agreed with this finding.

FINDING NO. 2 – Tennessee Did Not Ensure that the Achievement School District Developed and Implemented Adequate Internal Control Activities⁷

According to 34 C.F.R. Section (§) 80.20(a), fiscal control and fund accounting procedures of the State and its subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Nothing came to our attention that would lead us to believe that the Achievement School District could not adequately account for

⁷ Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

electronic devices in accordance with applicable requirements.⁸ However, we found that Tennessee did not ensure that the Achievement School District developed and implemented fiscal control and fund accounting procedures that provided reasonable assurance that the Achievement School District accounted for and spent Federal funds in accordance with Federal requirements and the approved grant application.

By not designing and implementing effective fiscal control and fund accounting procedures, the Achievement School District increased the risk that it would misuse Federal funds or not accomplish the goals set forth in the approved grant application. At least in part because of its lack of properly designed and effectively implemented fiscal control and fund accounting procedures, the Achievement School District spent Race to the Top funds for Area E on unallowable items and activities and did not always retain documentation that was adequate to show that Race to the Top transactions recording expenditures for Area E were allowable (see [Finding No. 3](#)).

Records Not Maintained

The Achievement School District had to obtain supporting documentation from third parties because the district did not always retain the documentation itself. Of the 203 judgmentally selected transactions that we examined, third parties had to provide documentation for 14. The 14 transactions recorded \$32,967 in expenditures incurred by the Achievement School District.

According to 34 C.F.R. § 80.42, grantees must maintain records for 3 years from the day the grantee submits its final expenditure report or until the completion of any audit started before the expiration of the 3-year period. Tennessee submitted its final expenditure report on December 29, 2015.

Contracting Procedures for Obtaining the Best Service Provider Not Created

The Achievement School District did not establish a process for determining whether it awarded professional services contracts based on the vendors' recognized competence and integrity. According to Tennessee Code Annotated §§ 12-4-106 (effective before July 1, 2013) and 12-3-1209 (effective July 1, 2013), “[c]ontracts for legal services, fiscal agent, financial advisor or advisory services, educational consultant services, and similar services by professional persons or groups with high ethical standards, shall not be based upon competitive procurement methods, but shall be awarded on the basis of recognized competence and integrity.”

We reviewed 15 of the 17 professional services contracts, worth \$1,343,198, that the Achievement School District entered into from June 2012 through September 2014. Of these 15 professional services contracts, the Achievement School District entered into 10, worth \$498,745, without providing evidence that it awarded the contracts based on the vendors' recognized competence and integrity.

By not designing and implementing internal control activities over its professional services contracts, the Achievement School District increased the risk that Federal funds will be misused or not used to accomplish the goals set forth in the State of Tennessee Governor's Office's approved grant application.

⁸ We found that the Achievement School District adequately accounted for 45 of the 495 electronic devices that we included in our sample (see [“Sampling Methodology”](#)).

Purchases Made Before Required Approvals Obtained

Achievement School District employees did not always obtain approvals for purchases before making the purchases. Of the 203 judgmentally selected transactions that we examined, 68, worth \$5,090,235, required purchase orders.⁹ An Achievement School District official approved 46 of the purchase orders after the purchases were made. For 1 of the 46 purchases, the person who approved the invoice was the same person who requested the purchase, indicating inadequate segregation of duties. Inadequate segregation of duties can increase the risk of fraud, waste, and abuse.

The Achievement School District's 2012–2013 "Tennessee Achievement School District Financial Policies and Procedures," requires an approved purchase order before employees can make purchases. According to the State of Tennessee's "Central Procurement Office Agency Procurement Manual," January 4, 2012, the procurement process begins with a requisition and purchase order.

Inadequate Design and Implementation of Control Activities Over Credit Cards

According to 34 C.F.R. § 80.20(a), fiscal control and fund accounting procedures of the State and its subgrantees must be sufficient to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. According to Tennessee Code Annotated 49–1–614(h), effective May 10, 2012, the Achievement School District was provided the same authority and autonomy afforded to LEAs under State law regarding the procurement of property, goods, and services, including professional services. Although the Achievement School District began its own credit card program, separate from the State's program, in October 2013, it did not issue the "Achievement School District P Card Usage Policy" until April 8, 2014. The district's policy listed only planned, not required, control activities for approving and reviewing credit card transactions. Additionally, we found that the Achievement School District did not implement the control activities described in the credit card policy.

The credit card policy stated that "Each transaction should be logged and should be reconciled with transaction receipts and forward [sic] to your approver for review and signature." Of the 203 judgmentally selected transactions that we reviewed, 12 recorded \$14,126 in expenditures that were made by employees using their district-authorized credit cards after the effective date of the Achievement School District's credit card usage policy. The Achievement School District did not record any of the 12 in a transaction log and did not have a reviewer reconcile and approve any of the 12.

Additionally, the Achievement School District authorized 12 employees to have credit cards. Each of the 12 credit card holders was authorized a \$50,000 monthly credit limit. Therefore, each of the 12 card holders had annual access to a \$600,000 revolving line of credit. The chief financial officer of the Achievement School District told us that the monthly credit limit was a mistake and that the monthly credit limits were reduced to \$2,500 or \$5,000, depending on the size of the applicable school or department. As evidence of the change, the Achievement School District provided us with a screen shot from its bank's Web site showing the reduced monthly credit limit for five of the credit card holders.

⁹ Certain types of transactions did not require purchase orders. For example, purchases made with credit cards, employee reimbursements, and adjusting journal entries were not required to go through the purchase order process.

Inadequate design and implementation of control activities over credit cards could result in fraud or abuse of Federal funds. For example, the Achievement School District informed us that at least one employee used a district-authorized credit card to purchase items for personal use. According to an email from Tennessee's Director of Internal Audit, the Achievement School District became aware of the abuse only after the employee notified management that she had accidentally used the district-authorized credit card to make a personal purchase. The Achievement School District then looked into other purchases that the employee made, found additional charges for personal items, and terminated the employee.

Inadequate Procedures for Accurately Recording Adjusting Journal Entries

According to 34 C.F.R. § 80.20(a), fiscal control and accounting procedures of the State and its subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. However, we found that the Achievement School District's fiscal control and fund accounting procedures did not provide reasonable assurance that adjusting journal entries were accurately recorded.

Of the 203 judgmentally selected transactions that we reviewed, 71 were adjusting journal entries recording Achievement School District expenditures worth \$336,018. Four of the 71 adjusting journal entries resulted in \$10,087 in duplicate charges to the Race to the Top grant.¹⁰ One adjusting journal entry resulted in an unallowable cost of \$1,055. Before our audit, the Achievement School District identified one transaction that mistakenly charged \$1,055 to the Race to the Top grant. The Achievement School District attempted to reverse the expenditure through an adjusting journal entry. However, instead of reversing the expenditure, the adjusting journal entry duplicated it. The Achievement School District eventually reversed one of the two charges, but \$1,055 was still incorrectly charged to the Race to the Top grant. After we brought this issue to their attention, Achievement School District employees created two adjusting journal entries that removed \$2,110 from the Race to the Top grant, although only \$1,055 should have been removed.

Because we identified problems with the accuracy of adjusting journal entries for the transactions in our sample, we chose to review all 707 adjusting journal entries that the Achievement School District recorded from July 1, 2014, through September 30, 2014. We found that the Achievement School District dated 412 of the 707 (58 percent) adjusting journal entries so that they appeared to have been recorded in September 2014. However, the Achievement School District had not recorded any of the 412 adjusting journal entries until after October 6, 2014, the date that we notified it we would be examining expenditures that occurred from July 1, 2014, through September 30, 2014. In September 2013, the Achievement School District recorded only 35 adjusting journal entries that added \$13,007 in expenditures to the Race to the Top grant.

We learned that the Achievement School District recorded the adjusting journal entries to correct accounting code errors and to remove unallowable expenditures that it identified when fulfilling our request. The unallowable expenditures that the Achievement School District removed from the Race to the Top grant were charges primarily for contracted services, data processing

¹⁰ The \$10,087 is included in the \$14,035 of unallowable costs for duplicated charges under "[Funds Used for Unallowable Activities.](#)"

services, and accounting services. The net effect of the 412 adjusting journal entries was to remove \$85,385 in expenditures from the Race to the Top grant.

Had the Achievement School District not removed these charges from the Race to the Top grant before our review, we most likely would have identified more unallowable expenditures during our review (see [Finding No. 3](#)).

Improper Classification of Expenditures

The Achievement School District incorrectly classified 34 (about 17 percent) of the 203 transactions that we judgmentally selected for review. We found that the Achievement School District classified travel and professional development expenditures as “office supplies and furniture;” classified expenditures for flowers, food and beverages, and security cameras as “travel;” and classified finance charges as “other supplies and materials.” For another 4 of the 203 transactions, the Achievement School District did not provide adequate documentation that would allow us to determine whether the Achievement School District correctly classified them.

According to 34 C.F.R. § 80.20(a), fiscal control and fund accounting procedures of the State and its subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Each employee who requested a purchase assigned the account code for that purchase. According to the controller for the Achievement School District, changing an incorrect account code in the accounting system once it was entered was difficult.

Unapproved Financial Policies and Procedures

The Achievement School District provided us with “Tennessee Achievement School District Financial Policies & Procedures,” May 10, 2012, which showed that the document was “revised with Commissioner’s approval.” However, the document was stamped “DRAFT” throughout. Before we completed our audit work, we asked for a finalized version with evidence of the Tennessee Commissioner of Education’s approval, but the Achievement School District did not provide us with a finalized version applicable to our audit period. With its response on the draft of this report, Tennessee provided a finalized and approved version of the financial policies and procedures, effective January 2015.

According to Tennessee Code Annotated 49–1–614(h), the Achievement School District was required to develop written procedures for the procurement of all goods and services in compliance with the expenditure thresholds for competitive bidding outlined or permitted in § 49–2–203. The Achievement School District also was required to obtain the approval of such procedures from the Tennessee Commissioner of Education.

Recommendations

We recommend that the Chief Financial Officer of the Department, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require Tennessee to instruct the Achievement School District to—

- 2.1 Develop and implement policies and procedures that provide reasonable assurance that it will retain adequate supporting documentation for all transactions.

- 2.2 Develop and implement policies and procedures for contracting that provide reasonable assurance that it is awarding professional service contracts on the basis of recognized competence and integrity.
- 2.3 Strengthen its purchasing processes so that the processes provide reasonable assurance that purchase orders are approved before employees order goods or services.
- 2.4 Strengthen its fiscal control and fund accounting procedures so that they provide reasonable assurance that adjusting journal entries are reviewed and approved, accounting codes are properly assigned to expenditures, and expenditures are appropriately and accurately allocated between Federal grants before being entered.
- 2.5 Review all adjusting journal entries for the Race to the Top grant and correct all errors that we did not identify during our review.
- 2.6 Develop and implement procedures that provide reasonable assurance that employees correctly classify transactions in the accounting system.
- 2.7 Follows its policies and procedures for using credit cards.
- 2.8 Have the credit card issuer provide directly to Tennessee verifications that the credit limits for all district-authorized credit cards have been reduced.

Auditee Comments

Tennessee agreed with the finding and recommendations, stating that it initiated a plan to move the Achievement School District's fiscal and accounting operations from the Achievement School District's current system to the State's primary fiscal system. Tennessee also stated that it assigned two people from its Office of the Chief Operating Officer to work with the Achievement School District to establish revised policies and procedures and oversight measures to ensure implementation of improved internal control activities. These two people and the Achievement School District will work with Tennessee's Office of the Chief Financial Officer and Office of Consolidated Planning and Monitoring to leverage additional expertise and successful practices in fiscal functions, State procedures, State systems, and Federal regulations. They will address each of the issues noted in the draft report. Tennessee provided its plan of action for each recommendation.

OIG Response

Tennessee's planned corrective actions, if implemented, should be sufficient to correct the control activity deficiencies that we identified. With its comments on the draft of this report, Tennessee provided a finalized and approved version of the Achievement School District's financial policies and procedures. Therefore, we removed our recommendation that the Achievement School District obtain approval for a finalized version of its financial policies and procedures from the Tennessee Commissioner of Education.

FINDING NO. 3 – Tennessee and the Achievement School District Did Not Comply With Federal Fiscal Requirements

Tennessee and the Achievement School District spent \$101,903 of Race to the Top funds for Area E on unallowable items and activities. In addition, Tennessee and the Achievement School District did not retain adequate documentation to show that transactions recording another \$141,968 in Race to the Top expenditures for Area E were allowable. The transactions recorded expenditures that were incurred while the Achievement School District was operating as part of Tennessee and while the Achievement School District was operating as an independent LEA. Tennessee and the Achievement School District did not always comply with Federal fiscal requirements and the approved grant application, in part, because Tennessee did not ensure that the Achievement School District developed and implemented adequate internal control activities over spending Race to the Top Area E funds.

Funds Spent on Unallowable Items and Activities

We judgmentally selected 203 transactions recording \$6,455,592 (23 percent) of the 57,957 transactions recording \$27,755,759 in expenditures that Tennessee and the Achievement School District charged to the Race to the Top grant for Area E and reviewed available supporting documentation. Of the 203 transactions, 55 recorded \$51,101 in expenditures that were unallowable. In addition to these 55 transactions, we identified 210 similar transactions recording \$50,802 in unallowable expenditures that we had not included in our sample of 203 transactions (see “[Selection of Expenditures for Area E](#)” in [Objectives, Scope, and Methodology](#)). In total, we identified 265 Race to the Top transactions recording \$101,903 in expenditures for Area E that were unallowable, as follows.¹¹

- Tennessee and the Achievement School District spent \$43,686 on promotional items, such as tee shirts, water bottles, cups, bumper stickers, wrist bands, laptop bags, and other items imprinted with the Achievement School District’s logo. According to 2 C.F.R. Part 225, Appendix B, Selected Items of Cost, unallowable advertising and public relations costs include costs of promotional items and memorabilia, including models, gifts, and souvenirs.
- Tennessee and the Achievement School District spent \$14,198 on items for personal use and personal convenience, such as food and beverages, gifts for employees, and flowers for a supporter of the district and employees of the district. According to 2 C.F.R. Part 225, Appendix B, Selected Items of Cost, costs of goods or services for personal use are unallowable.
- Tennessee and the Achievement School District spent \$14,975 on travel costs in excess of the maximum allowance rates, travel costs charged to the wrong account, and travel costs that did not benefit the Race to the Top grant. The costs included \$8,152 for employee travel costs in excess of the maximum allowance rates. For example, the Achievement School District spent \$344 on meals for the superintendent when the 1–day reimbursement rate for that location was \$46 (difference of \$298).¹² Additionally the Achievement School District spent \$130 on main-cabin extras and

¹¹ The amounts listed in the following bullet points do not add to \$101,903 because of rounding.

¹² Maximum lodging and meal allowance rates refer to the maximum allowance rates established by the U.S. General Services Administration.

preferred seats on one flight and \$120 on a seat upgrade for another flight for the superintendent and employees. The Achievement School District also spent \$20 for a flight upgrade for the superintendent's wife, who was not an employee of the Achievement School District.

From July 1, 2010, through June 30, 2012, the Achievement School District was required to follow the State of Tennessee's travel regulations. The State of Tennessee's "Department of Finance and Administration Policy 8 - Comprehensive Travel Regulations," August 2012, included maximum lodging and meals allowance rates for out-of-State and in-State travel. The out-of-State allowance rates established by the State of Tennessee adhered to those rates established by the U.S. General Services Administration. From October 1, 2011, through June 30, 2013, the maximum lodging and meals allowance rates established by the State of Tennessee for in-State travel matched U.S. General Services Administration allowance rates for the State.

From July 1, 2012, through September 30, 2014, when it was operating as an independent LEA, the Achievement School District did not have its own written policy that established maximum lodging and meals allowance rates. According to Appendix B to 2 C.F.R. Part 225:

In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)). The U.S. General Services Administration provides maximum lodging and meals allowance rates for temporary duty locations within the continental United States.

According to 2 C.F.R. Part 225, Appendix B, Selected Items of Cost, airfare costs in excess of the customary standard commercial airfare (coach or equivalent) are unallowable.

The unallowable travel costs also included \$5,376 for contractor travel and consulting services when the contract with the vendor stated that it should be paid with State funds and \$1,448 for employee travel expenses that did not benefit the Race to the Top grant.¹³ For example, the Achievement School District paid \$1,752 for airfare for the superintendent to speak at conferences. These conferences might have been beneficial for the attendees, but they did not benefit the Race to the Top grant.

- The Achievement School District spent \$14,035 on travel, finance, and credit card charges that the Achievement School District recorded in its accounting records twice. According to 2 C.F.R. Part 225, Appendix A, to be allowable under Federal

¹³ The \$1,448 included \$575 for a training registration fee refund that we included to ensure that the Achievement School District received credit for this refund.

awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Duplicate charges to a grant are not necessary or reasonable.

- The Achievement School District spent \$9,447 on entertainment, such as employee parties, movie tickets, baseball tickets, and community picnics with a disc jockey and a bounce house. According to 2 C.F.R. Part 225, Appendix B, Selected Items of Cost, costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, and transportation) are unallowable.
- The Achievement School District spent \$4,762 on public relations costs to promote the district. These costs were not necessary or reasonable for the administration of the Race to the Top grant and did not involve communication with the public and news media about the activities, accomplishments, or other matters of concern related to the Race to the Top grant. Instead, the Achievement School District was promoting itself and recruiting students. According to 2 C.F.R. Part 225, Appendix B, Selected Items of Cost, the only allowable public relations costs are those specifically required by the Federal award, costs of communicating with the public and press pertaining to specific activities or accomplishments which result from the performance of the Federal award, or costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern. Unallowable public relations costs include those designed solely to promote the non-Federal entity.
- The Achievement School District spent \$529 on late payment fees and finance charges for credit cards. The Achievement School District paid a total of \$360 more than the monthly amount required by its lease agreement because of late payment fees. The Achievement School District also paid \$70 in late payment fees for a utility bill and \$99 in finance charges for its credit cards. According to 2 C.F.R. Part 225, Appendix A, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Late payment fees and finance charges are not necessary and reasonable for the administration of the Race to the Top grant.
- The Achievement School District spent \$269 on travel costs for an employee to work on a different Federal grant. The employee was reviewing applications and conducting interviews for the Federal Investing in Innovation Fund grant, but the Achievement School District charged the travel costs to the Race to the Top grant. According to 2 C.F.R. Part 225, Appendix A, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. These travel costs were not chargeable or assignable to a cost objective associated with the Race to the Top grant.

Costs Not Adequately Documented

According to 2 C.F.R. Part 225, Appendix A, to be allowable under Federal awards, costs must be adequately documented. However, we found that Tennessee and the Achievement School

District did not always retain documentation that was adequate to show that Race to the Top Area E funds were spent only on allowable items and activities. We judgmentally selected 203 (less than 1 percent) of the 57,957 transactions recording expenditures that Tennessee and the Achievement School District charged to the Race to the Top grant for Area E from July 1, 2010, through September 30, 2014. The 203 transactions recorded \$6,455,592, or 23 percent, of the \$27,755,759 in Area E expenditures that Tennessee and the Achievement School District incurred during the period. We reviewed available supporting documentation and identified 45 transactions, recording \$141,968 in expenditures that Tennessee and the Achievement School District charged to the Race to the Top grant for Area E, that lacked adequate documentation to support that the costs were allowable, as follows.

- Tennessee and the Achievement School District spent \$52,837 on travel and purchases without retaining any invoices or receipts.
- Tennessee and the Achievement School District spent \$39,749 on contracted services (\$20,000 for connecting students with community support services, \$8,334 for community outreach and communication, \$9,689 for janitorial and lawn services and request for proposal processing, and \$1,726 for office space rental) without written contracts.
- Tennessee spent \$20,460 on contracted services for creating and branding the Achievement School District logo without an approved, signed contract. The Achievement School District had a copy of a contract, but it was not signed by an Achievement School District official.
- The Achievement School District spent \$8,400 on contracted accounting services for a detailed review of transactions and improvements to the Achievement School District's accounting system. The vendor was tasked with, among other things, ensuring that transactions were assigned the correct account codes, identifying potentially unallowable expenditures, and establishing a system or process for ensuring that future expenditures would be assigned to the proper account codes. The Achievement School District did not provide enough documentation for us to determine whether the vendor completed any of these tasks.
- The Achievement School District spent \$8,017 on travel expenses for employees to attend training events without providing evidence, such as certificates of completion or sign-in sheets, that the employees attended the training events.
- The Achievement School District spent \$7,529 on student mentoring and janitorial services without providing contracts that the Achievement School District signed at the time that the services were procured. Achievement School District officials did not sign the contracts until after they were charged for the services.
- The Achievement School District spent \$2,542 on various items (\$1,386 for employee travel expenses, \$433 on a camera, luggage, gift cards, and smart phone, and \$723 for unspecified cable and telecommunications services) without documentation showing how the costs were necessary and reasonable for the administration of the Race to the Top grant.

- The Achievement School District spent \$2,287 for a vendor to provide training to Achievement School District employees without providing evidence, such as certificates of completion or training agendas, that the vendor actually provided the services.
- The Achievement School District spent \$102 on travel expenses without providing sufficient detail on personally owned vehicle mileage reports. The mileage reports did not provide start and end addresses, odometer readings, dates of travel, or the reason for the travel.
- The Achievement School District spent \$45 more than the \$1,500 amount shown on the invoice for a booth dedicated to improving district awareness and recruiting teachers at a local festival.

Tennessee and the Achievement School District spent Race to the Top funds on unallowable and inadequately documented items and activities, in part, because Tennessee did not ensure that the Achievement School District had developed and implemented fiscal control and fund accounting procedures that provided reasonable assurance that Federal funds were accounted for and spent in accordance with Federal program requirements and the approved grant application (see [Finding No. 2](#)). Because of the significance of the internal control deficiencies, the risk that Tennessee and the Achievement School District charged additional unallowable and inadequately documented expenditures to the Race to the Top grant is increased.

Recommendations

We recommend that the Chief Financial Officer of the Department, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require Tennessee to—

- 3.1 Provide accounting records showing Tennessee removed the \$100,848 that it, the Achievement School District, or both, used for unallowable items and activities and supporting documentation proving that the expenditures charged to the Race to the Top grant in place of the \$100,848 comply with Federal fiscal requirements and the approved grant application.¹⁴
- 3.2 Provide accounting records showing that Tennessee removed the \$141,968 that it, the Achievement School District, or both, used for items and activities that were not adequately documented and proving that any expenditures charged to the Race to the Top grant in place of the \$141,968 are adequately documented and comply with Federal fiscal requirements and the approved grant application.
- 3.3 Review a statistical sample of Achievement School District related Race to the Top grant transactions for Area E that we did not review and identify other expenditures that were for unallowable items or activities or were inadequately documented. If Tennessee identifies such expenditures, then it should return to the Department the amount of

¹⁴ We confirmed that the Achievement School District returned \$1,055 to the Race to the Top grant after we brought the adjusting journal entry error to its attention. The \$100,848 represents the total unallowable costs described in the finding less \$1,055.

expenditures spent for unallowable items and activities, provide sufficient support for any inadequately documented transactions or return the amounts to the Department.

Auditee Comments

Tennessee agreed with the finding, stating that it moved all preliminary questioned costs, both unallowable and inadequately documented, off the grant to other funding sources. With approval from the Department, Tennessee reallocated the released funds to other approved activities across the Race to the Top grant through the formal activity and budget amendment process. Through this process, Tennessee reallocated \$259,490 to other approved activities across the Race to the Top grant before the expiration of the period of availability of the grant funds.

Tennessee also stated that it formed a support team to assist the Achievement School District in developing stronger internal control activities across fiscal operations and Federal programs. Tennessee stated that the support team is working with the Achievement School District's fiscal and Federal programs teams to ensure those team members understand Federal regulations for allowable costs and to develop effective planning, reimbursement, and monitoring policies and procedures. The support team will review all Federal reimbursement requests for the current fiscal year. By July 1, 2016, Tennessee's goal is for the Achievement School District Federal programs team to have deeper content knowledge of Federal regulations and a clearer understanding of documentation requirements. Because of these efforts, Tennessee asked that the OIG modify the recommendations to include the existing efforts that cleared the questioned costs.

Tennessee included a comparison between the questioned costs in the draft report and the journal entries in the Achievement School District's fiscal system that shifted expenses from the Race to the Top grant to local funds. In many cases, the expenses in the journal entry exceed those listed in the draft report because Tennessee moved all flagged expenses noted at the time of the exit conference. Tennessee removed a total of \$259,490 in Achievement School District expenses from the grant at the time of the exit conference. In a few instances, the questioned costs were not fully removed from the grant. These omissions were due to final decisions in the audit process or an error in leaving an expense out of the journal entries. As with the prior efforts made to ensure students received the full benefit of the grant, Tennessee requested the opportunity to shift these additional expenses off of the Race to the Top grant and replace them with other allowable expenses from the period of availability.

Tennessee also proposed to add to the recommendations the support team efforts to bolster practices and controls in the Achievement School District's Federal programs.

OIG Response

We discussed with the Executive Director of Operational Strategy for Tennessee one travel cost transaction that we identified as unallowable. Given the explanation provided, we agreed to lower the amount of unallowable expenditures identified in the draft of this report by \$143.

In the draft of this report, we recommended that Tennessee return the unallowable expenditures and provide documentation to support all expenditures that were not adequately documented or return those funds. We have not reviewed accounting records and supporting documentation for the corrective actions Tennessee stated that it has already completed. However, because

Tennessee stated that it has removed the unallowable and inadequately documented expenditures that we identified in the draft of this report, we changed recommendations 3.1 and 3.2 to recommend that Tennessee provide the Assistant Secretary with accounting records showing that the expenditures were removed from the Race to the Top grant and supporting documentation proving that any expenditures subsequently charged to the Race to the Top grant are allowable and adequately documented. We did not change recommendation 3.3.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether Tennessee

1. accurately and completely reported Area D grant performance data to the Department,
2. spent Race to the Top funds only on allowable items and activities and in accordance with program requirements and the approved grant application, and
3. ensured that each LEA receiving a Race to the Top subgrant from Tennessee spent the funds only on items and allowable activities and in accordance with program requirements and the approved grant application.

For the first objective, our audit covered Tennessee's 2012–2013 annual performance report only for Area D. For the second and third objectives, our audit covered July 1, 2010, through September 30, 2013, only for Areas C and D at Tennessee and Hamilton. Also, for our second and third objectives, our audit covered July 1, 2010, through September 30, 2014, for Area E at Tennessee (Achievement School District related only) and the Achievement School District.

To gain an understanding of the Race to the Top program requirements, we reviewed information posted on the Department's Web site; the Recovery Act, Sections 14005–14006, Title XIV (Public Law 111–5); Federal regulations at 2 C.F.R. Part 225, and 34 C.F.R. Parts 76 and 80; and 74 Federal Register 59688 (November 18, 2009).

To gain an understanding of how Tennessee administered its Race to the Top grant and the environment in which Tennessee operated, we reviewed the approved grant application, 2012–2013 annual performance report, Web site, and organizational charts. To identify areas of potential internal control weaknesses related to our audit objectives, we reviewed reports on Office of Management and Budget Circular A-133 compliance audits of Tennessee.

To achieve our objectives, we judgmentally selected Hamilton from the 140 LEAs that were participating in Tennessee's Race to the Top program as of August 9, 2010 (see "[Sampling Methodology](#)"). To gain an understanding of how Hamilton administered its portion of the Race to the Top grant and the environment in which Hamilton operated, we reviewed Hamilton's Race to the Top scope of work, Web site, and organizational chart. To identify areas of potential internal control weaknesses related to our audit objectives, we reviewed reports on Office of Management and Budget Circular A-133 compliance audits of Hamilton.

We also judgmentally selected the Achievement School District because it was a new school district and had prior audit findings. To gain an understanding of how the Achievement School District administered Race to the Top funds designated for Area E, we reviewed the Achievement School District's fiscal policies and procedures, Web site, and organizational chart. To identify areas of potential internal control weaknesses related to our audit objectives, we reviewed reports on Office of Management and Budget Circular A-133 compliance audits of the Tennessee Department of Education, which included the Achievement School District.

Internal Control

To gain an understanding and assess the adequacy of Tennessee's internal control activities over reporting Race to the Top grant performance data to the Department, we interviewed Tennessee and Hamilton officials. We also reviewed supporting documentation for the data that Tennessee reported.

To gain an understanding and assess the adequacy of Tennessee's internal control activities over spending Race to the Top funds for Areas C and D and subrecipient monitoring, we interviewed Tennessee officials and reviewed Tennessee's written policies and procedures. We also judgmentally selected a sample of Tennessee's Race to the Top transactions recording expenditures for Areas C and D and reviewed supporting documentation, such as invoices, receipts, and purchase orders.

To gain an understanding and assess the adequacy of Hamilton's internal control activities over spending Race to the Top funds for Areas C and D, we interviewed Hamilton officials and reviewed Hamilton's written policies and procedures. We also judgmentally selected a sample of Hamilton's Race to the Top transactions recording expenditures for Areas C and D and reviewed supporting documentation such as invoices and purchase orders.

To gain an understanding and assess the adequacy of the Achievement School District's internal control activities over spending Race to the Top funds for Area E, we interviewed Tennessee and Achievement School District officials and reviewed Tennessee's and the Achievement School District's written policies and procedures. We also judgmentally selected a sample of Tennessee's and the Achievement School District's Race to the Top transactions recording expenditures for Area E and reviewed supporting documentation such as contracts, invoices, purchase orders, and receipts.

Our review disclosed significant weaknesses in Tennessee's oversight of the Achievement School District and the Achievement School District's fiscal control and fund accounting procedures (see [Finding No. 2](#)).

Data Reliability

To achieve our first objective, we relied on LEA-provided data that showed student growth and teacher evaluation results. We also relied on data from the Tennessee Higher Education Commission that showed the results of teacher preparation programs. We assessed the reliability of these data by looking for duplicate entries, missing data, and inappropriate relationships to other data. We determined that these data were sufficiently reliable for our intended use.

To achieve our second and third objectives, we relied, in part, on data from Tennessee's, Hamilton's, and the Achievement School District's accounting systems.¹⁵ We reviewed the data for completeness by comparing Tennessee's expenditure totals to the total drawdowns shown in the Department's G5 system and comparing Hamilton's expenditure totals to the total revenue Tennessee provided based on reimbursement requests. We also analyzed the data from Tennessee's, Hamilton's, and the Achievement School District's accounting systems, looking for duplicate entries, missing data, inappropriate relationships to other data, values outside a designated range, or values outside valid periods. Based on the results of our comparison and analyses, we concluded that the data provided by Tennessee, Hamilton, and the Achievement School District were sufficiently reliable for our intended use.

Sampling Methodology

We used sampling to achieve our audit objectives. We judgmentally selected (1) two LEAs, (2) 10 performance measures for Area D, (3) transactions recording expenditures for Areas C and D incurred by Tennessee and Hamilton, (4) transactions recording expenditures for Area E by Tennessee (Achievement School District related only) and the Achievement School District, and (5) a nonstatistical random sample of electronic devices that were included in purchases from our sample of the Achievement School District's transactions. Because we judgmentally selected the LEAs, performance measures, transactions, and electronic devices, our sampling results might not be representative of the entire universes and, therefore, cannot be projected to the universes.

Selection of LEAs

We judgmentally selected 1 of the 140 LEAs that were participating in Tennessee's Race to the Top program as of August 9, 2010. We selected Hamilton because it received the most Race to the Top funds of the 3 LEAs that the Department reviewed in March 2014. We also considered various risk factors, such as whether prior audit reports identified findings that we considered significant within the context of our audit objectives. We judgmentally selected the Achievement School District because it was a newer LEA, recent audits of it disclosed significant findings, including inadequate review of invoices, inadequately documented costs, and charging Federal grants before the beginning of the grant term.

Selection of Performance Measures for Area D

We judgmentally selected 10 of 39 (26 percent) Race to the Top grant performance measures for Area D that Tennessee reported in its 2012–2013 annual performance report to the Department. We selected these 10 grant performance measures based on how much Tennessee was above, below, or exactly on target for meeting the performance measures. We considered grant performance measures that were significantly above or below the target, or exactly on target, to be more likely to be incorrect.

Selection of Expenditures for Areas C and D

For Tennessee, we selected 40 transactions recording \$7,170,170 (13 percent) of the 14,771 transactions recording \$57,326,626 in personnel and nonpersonnel expenditures that Tennessee charged to the Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013. We judgmentally selected the seven highest transactions recording

¹⁵ The Achievement School District began using its own accounting system on October 1, 2013. Before October 1, 2013, expenditure data for the Achievement School District was recorded in Tennessee's accounting system.

personnel expenditures for Area C and the seven highest transactions recording personnel expenditures for Area D. We limited our judgmental selection of Tennessee's transactions recording nonpersonnel expenditures to those for data processing services, food and beverage, general business consulting services, indirect cost charges, nonmedical payments, office supplies and furniture, other, publication subscriptions, rent or lease building property, subsidies to other state agencies and school districts, telephone billings, and travel expenses. We judgmentally selected 26 transactions recording nonpersonnel expenditures for Areas C and D, focusing on the highest transactions in each category.

For Hamilton, we selected 23 transactions recording \$1,064,770 (18 percent) of the 1,442 transactions recording \$5,949,913 in expenditures that Hamilton charged to the Race to the Top grant for Areas C and D from July 1, 2010, through September 30, 2013.¹⁶ We judgmentally selected six transactions recording personnel expenditures for salaries and benefits of employees working part time on the Race to the Top grant and a stipend for training sessions. We limited our judgmental selection of transactions recording Hamilton's nonpersonnel expenditures to equipment, consultants, in-service and staff development, instructional supplies, and software licenses and support. We judgmentally selected 5 transactions recording nonpersonnel expenditures for Area C and 12 transactions recording nonpersonnel expenditures for Area D, focusing on the highest transactions in each category.

Additionally, Hamilton received a teacher and principal residency grant from the non-LEA portion of Race to the Top funds. We judgmentally selected 8 transactions recording \$299,326 (23 percent) of the 485 transactions recording \$1,290,115 in expenditures that Hamilton charged to the teacher and principal residency grant from July 1, 2010, through September 30, 2013. We judgmentally selected four transactions recording personnel expenditures for the one employee fully funded by the grant. We limited our judgmental selection of four transactions recording nonpersonnel expenditures to equipment, contracted services, and travel, focusing on the highest transactions in each category.

Selection of Expenditures for Area E

We selected 203 transactions recording \$6,455,592 (23 percent) in nonpersonnel expenditures of the 57,957 transactions recording \$27,755,759 (\$9,862,740 in personnel and \$17,893,019 in nonpersonnel) expenditures that Tennessee and the Achievement School District charged to the Race to the Top grant for Area E from July 1, 2010, through September 30, 2014. We selected only nonpersonnel transactions for Area E because our initial review of personnel transactions did not identify any that appeared anomalous. We judgmentally selected transactions recording expenditures incurred for consultants, food and beverage, grants and subsidies, instructional materials, moving charges, office supplies, operational supplies, other contracted services, rentals, and travel, focusing on the highest transactions in each category.

After reviewing supporting documentation for these 203 transactions and identifying unallowable and inadequately documented nonpersonnel expenditures, we reviewed the descriptions of the remaining 57,754 transactions recorded in the Achievement School District's general ledger. We identified 210 additional transactions, recording \$50,946 in nonpersonnel

¹⁶ The universe included transactions that Hamilton officials designated specifically as Area D and those designated as a combination of Area D and other areas, such as B and E. Because Hamilton officials did not always designate the transactions as one specific area, we included in the overall universe any transactions for which Area D was identified as one of the account categories.

expenditures for Area E, that had similar descriptions as the unallowable expenditures that we identified through our sample of 203 transactions. For example, the general ledger included 49 transactions for other promotional expenditures.

Selection of Electronic Devices

We judgmentally selected a nonstatistical sample of electronic devices that the Achievement School District purchased with Area E funds to verify the existence of the devices. We first selected all 5 transactions recording purchases of electronic devices that were included in our sample of 203 transactions and made from June 12, 2012, through May 3, 2014. We then randomly selected 45 (9 percent), worth \$32,121, of the 495 electronic devices, worth \$291,424, from the 5 transactions.

Comparative and Verification Procedures

To achieve our first objective, we verified the accuracy of the results that Tennessee reported in its 2012–2013 annual performance report for 10 grant performance measures for Area D by reviewing documents from third parties (see [Data Reliability](#)). To achieve our second and third objectives, we reviewed Tennessee’s, Hamilton’s, and the Achievement School District’s contracts, invoices, receipts, expense reports, purchase orders, and payroll records to verify the amount and appropriateness of the selected expenditures. We also verified the existence of electronic devices that the Achievement School District purchased by conducting a physical inventory of the selected devices.

We conducted this audit from April 2014 through July 2015 in Chattanooga, Memphis, and Nashville, Tennessee; and at our offices in Chicago, Illinois; Dallas, Texas; and Kansas City, Missouri. During our audit, we provided Tennessee with an itemized list of all the unallowable and inadequately documented expenditures that we identified.

We discussed the results of our audit with Tennessee officials on October 19, 2015. We provided Tennessee with a draft of this report on January 29, 2016.

We reviewed Tennessee’s comments on the draft of this report (see [Attachment 2](#)) and supporting documentation listing the adjusting journal entries that Tennessee made to reclassify the unallowable and inadequately documented expenditures from the Race to the Top grant to local sources of funds. We did not review any accounting records confirming that Tennessee properly charged the federally unallowable and inadequately documented expenditures to local sources of funds and then charged other, allowable expenditures to the Race to the Top grant.

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 the evidence that we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

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. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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 officials, who will consider them before taking final Departmental action on this audit:

Ann Whalen
Senior Advisor to the Secretary, Delegated the
Duties of the Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
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It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 calendar days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General 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 Tennessee, Hamilton, and Achievement School District employees. If you have any questions, please contact me or Jonathan Enslin, Assistant Regional Inspector General for Audit, at (312) 730-1620.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit

Attachments

Attachment 1: Acronyms, Abbreviations, and Short Forms Used in This Report

Area C	Application Area C, “Data Systems to Support Instruction,” of the State of Tennessee Office of the Governor’s Approved Grant Application
Area D	Application Area D, “Great Teachers and Leaders,” of the State of Tennessee Office of the Governor’s Approved Grant Application
Area E	Application Area E, “Turning Around the Lowest-Achieving Schools,” of the State of Tennessee Office of the Governor’s Approved Grant Application
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Hamilton	Hamilton County Department of Education
LEA	Local Educational Agency
Recovery Act	American Recovery and Reinvestment Act of 2009
§	Section
Tennessee	Tennessee Department of Education

Attachment 2: Tennessee's Comments on the Draft Report

Tennessee provided the following comments on the draft of this report on February 29, 2016. In addition, Tennessee attached the Achievement School District's finalized and approved financial policies and procedures manual (January 2015) and a spreadsheet showing the (1) unallowable and inadequately documented charges that we identified in the draft of this audit report and (2) adjusting journal entries showing that Tennessee reclassified funds from the Race to the Top grant to local sources of funds. We will provide the two attachments on request.



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COMMISSIONER

February 29, 2016

Gary D. Whitman
Regional Inspector General for Audit
U.S. Department of Education, Office of the Inspector General
Citigroup Center
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Control Number
ED-OIG/A05O0004

Dear Mr. Whitman,

Tennessee appreciates the opportunity to provide responses to the draft audit report, "The Tennessee Department of Education's Administration of its Race to the Top Grant," and we thank your team for their efforts in supporting this work. The report noted three findings regarding the Department's initiatives: (1) ensuring accurate grant performance data in Area D and allowable expenses in Area C and D, (2) ensuring adequate internal control activities in the Achievement School District, and (3) complying with federal fiscal requirements in Achievement School District activities. The section below details our response to each of the findings and the related recommendations.

Finding 1: Tennessee Accurately reported Area D Grant Performance Data and Ensured Area C and D Expenditures Were Allowable

The Department agrees with the finding. No recommendations were issued for this finding.

Finding 2: Tennessee Did Not Ensure that the Achievement School District Developed and Implemented Adequate Internal Control Activities

The Department agrees with the finding. To ensure proper internal controls, the Department launched a robust plan of support and transition for the Achievement School District (ASD) beginning in January of 2016. The goals of the support team are a) to clean, update, and ensure implementation fidelity of all fiscal and federal program policies and procedures and b) to begin the process of shifting fiscal and accounting operations from the ASD’s current system into the state’s primary fiscal system by July 1, 2016.

The Department committed two team members from the Office of the Chief Operating Officer to delve into the internal practices and controls of the ASD and to work collaboratively with the ASD to establish a revised set of fiscal policies and procedures and methods of oversight to ensure strong implementation. The team partners with the Department’s Office of the Chief Financial Officer and the Office of Consolidated Planning and Monitoring to leverage additional expertise and successful practices in fiscal functions, state procedures, state systems, and federal regulations. By ultimately shifting the fiscal operations into the state’s system, the Department will be able both to leverage the existing internal controls used by all state agencies and to maintain ongoing oversight into the ASD’s fiscal practices and health. In redesigning policies and procedures for fiscal internal controls, both currently and in the future under the state system, the support team and ASD will address each of the issues noted in the draft report in the updated documentation and practices. While the ASD will have a revised set of policies and procedures developed throughout the spring, the Department will finalize an updated set that incorporates any necessary procedural changes due to moving onto the state system by July 1, 2016.

The Department agrees with the recommendations provided. In the below table, the Department provides additional information and completion/target dates for each recommendation:

Recommendation	Department Corrective Action	Completion/Target Date
2.1: Develop and implement policies and procedures that provide reasonable assurance that it will retain adequate supporting documentation for all transactions.	<ul style="list-style-type: none"> • Documentation retention policy and procedures to be added to the updated Fiscal Policies and Procedures 	<ul style="list-style-type: none"> • Completion: July 1, 2016 (to incorporate system transition requirements)
2.2: Develop and implement policies and procedures for contracting that provide reasonable assurance that it is awarding professional service contracts on the basis of recognized competence and integrity.	<ul style="list-style-type: none"> • Updated procurement policies, procedures, including selection templates with competence and integrity indicators, to be added to the updated Fiscal Policies and Procedures, building from state standard practices 	<ul style="list-style-type: none"> • Completion: July 1, 2016 (to incorporate system transition requirements)

Recommendation	Department Corrective Action	Completion/Target Date
<p>2.3: Strengthen its purchasing processes so that processes provide reasonable assurance that purchase orders are approved before employees order goods or services.</p>	<ul style="list-style-type: none"> • Support team focuses support on purchasing processes, providing monitoring and support to ensure proper approvals are in place • Updated procurement policies, procedures, including selection templates with competence and integrity indicators, to be added to the updated Fiscal Policies and Procedures, building from state standard practices • State system requires approvals of purchase orders prior to ordering 	<ul style="list-style-type: none"> • Support Team in Place: January 1, 2016 • Completion: July 1, 2016 (to incorporate system transition requirements)
<p>2.4: Strengthen its fiscal control and fund accounting procedures so that they provide reasonable assurance that adjusting journal entries are reviewed and approved, accounting codes are properly assigned to expenditures, and expenditures are appropriately and accurately allocated between Federal grants before being entered.</p>	<ul style="list-style-type: none"> • Support Team prioritizes fiscal controls and fund accounting procedures at point of entry into ASD system through monitoring and direct review of journals, account codes, and fund allocations • Updated fiscal and accounting controls and procedures, including reviews, naming conventions, and required documentation, to be written into updated Fiscal Policies and Procedures 	<ul style="list-style-type: none"> • Support Team in Place: January 1, 2016 • Completion: July 1, 2016 (to incorporate system transition requirements)
<p>2.5: Review all adjusting journal entries for the Race to the Top grant and correct all errors that we did not identify during our review.</p>	<ul style="list-style-type: none"> • Support Team will review the remaining adjusting journal entries, making any additional corrections 	<ul style="list-style-type: none"> • Completion: July 1, 2016
<p>2.6: Develop and implement procedures that provide reasonable assurance that employees correctly classify</p>	<ul style="list-style-type: none"> • Support Team prioritizes fiscal controls and fund accounting procedures at point of entry into ASD 	<ul style="list-style-type: none"> • Support Team in Place: January 1, 2016 • Completion: Training

Recommendation	Department Corrective Action	Completion/Target Date
transactions in the accounting system.	system through monitoring and direct review of account codes <ul style="list-style-type: none"> • Support Team will provide robust training to ASD staff on proper account codes and classifications • Updated fiscal and accounting controls and procedures, including proper classifications, to be written into updated Fiscal Policies and Procedures 	Held by April 30, 2016 <ul style="list-style-type: none"> • Completion: July 1, 2016 (to incorporate system transition requirements)
2.7: Obtain approval for a finalized version of its financial policies and procedures from the Tennessee Commissioner of Education.	<ul style="list-style-type: none"> • Commissioner approved finalized version of policies and procedures • Commissioner will approve updated version of policies and procedures in preparation for shift to state system 	<ul style="list-style-type: none"> • Completed: January 29, 2015 (attached) • Completion: July 1, 2016 (to incorporate system transition requirements)
2.8: Follows its policies and procedures for using credit cards.	<ul style="list-style-type: none"> • Updated procedures for ensuring credit card policies and procedures are being implemented accurately to be written into updated Fiscal Policies and Procedures • ASD will assign team member responsibility of oversight for credit card policy and procedure implementation fidelity 	<ul style="list-style-type: none"> • Completion: July 1, 2016 (to incorporate system transition requirements) • Completion: July 1, 2016
2.9: Have the credit card issuer provide directly to Tennessee verifications that the credit limits for all district-authorized credit cards have been reduced.	<ul style="list-style-type: none"> • Support Team will request written verification of credit limits from issuer 	<ul style="list-style-type: none"> • Finalize: March 31, 2016

The Department is pleased with the progress over the last two months as the support team delved into the ASD’s fiscal practices, analyzed gaps in implementation and policies, and made changes to produce stronger internal controls for current operations and to better prepare the ASD for operation in the state’s fiscal system.

Attachments:

1. ASD Financial Procedures Manual 2014-15 with Commissioner Approval

Finding 3: Tennessee and the Achievement School District Did Not Comply With Federal Fiscal Requirements

The Department agrees with the finding. The Department initiated two major corrective action efforts to address this finding.

First, prior to the close of the period of availability for the Race to the Top grant, the Department moved all preliminary questioned costs, both unallowable and insufficiently documented, off the grant to other funding sources. In working with the state's program officer at the U.S. Department of Education, the Department's First to the Top Oversight team developed and implemented a strategy to remove questioned costs (identified at the time of the release of the exception reports from the Office of the Inspector General) from the grant. While the expenses were shifted to other non-federal funding sources, the First to the Top Oversight team sought and was granted approval from the U.S. Department of Education to reallocate the released funds to other approved activities across the grant through the formal activity and budget amendment process. As a result, a vast majority of the expenses listed in the draft report were removed from the Race to the Top grant prior to the close of the period of availability.

Second, as mentioned above, the Department launched a support team to assist the ASD in developing stronger internal controls and practices in policies, procedures, and implementation across both fiscal operations and federal programs. In conjunction with the Department's Office of Consolidated Planning and Monitoring, the support team is working with the ASD's fiscal and federal programs teams to ensure robust understanding of federal regulations for allowable costs and to develop effective planning, reimbursement, and monitoring policies and procedures. These efforts include a review of all federal reimbursement requests for the current fiscal year. By July 1, 2016, the ASD will have fully launched a revised federal programs team with deeper content knowledge of federal regulations and clearer understanding of requirements for documentation.

The Department understands the recommendations provided. However, given the efforts to date, the Department requests that consideration be given to modifying the recommendations.

As detailed above, the Department shifted a majority of these expenses (both unallowable and insufficiently documented) off of the Race to the Top grant prior to the close of the grant's period of availability. Both the U.S. Department of Education and the Department aimed to ensure funds could be appropriately used as completely as possible to the benefit of students and educators. The shift of funds to other allowable grant activities was detailed and approved through the U.S. Department of Education's formal process for activity and budget amendments. Ultimately, these funds were spent during the grant period on allowable activities. In alignment with the approvals previously issued, the Department requests to modify the recommendations to include the existing efforts that cleared these expenses.

The Department is including a crosswalk between the questioned costs used in the draft report (provided by the Office of the Inspector General) and the journal entries in the ASD’s fiscal system that shifted expenses from Race to the Top to local funds. In many cases, the expenses in the journal exceed those listed in the draft report. This is the result of the Department moving all flagged expenses at the time of the exit conference in order to ensure funds could be used elsewhere in the Race to the Top grant (notes are included in the documentation to highlight these overages). Overall, the Department removed a total of \$259,490 in ASD expenses from the grant at the time of the exit conference.

In a few instances, the questioned costs were not fully removed from the grant. These omissions were due to final decisions in the audit process or an error in leaving the expense out of the journal entries. As with the prior efforts made to ensure students received the full benefit of the grant, the Department requests the opportunity to shift these additional expenses off the grant and to replace them with other allowable expenses from the period of availability.

The Department also proposes to add to the recommendations the support team efforts to bolster practices and controls in the ASD’s federal programs work.

The Department’s proposed set of recommendations, corrective actions, and completion/target dates as they relate to the unallowable and insufficiently documented expenses is detailed below:

Recommendation	Department Corrective Action	Completion/Target Date
<p>3.1: Within the period of availability of the grant and with approval from the program officer at the U.S. Department of Education, the Department will shift potentially questioned expenses off the Race to the Top grant, repurposing them for other allowable grant activities</p>	<ul style="list-style-type: none"> • Department developed and processed a journal entry to remove questioned costs identified at the time of the exit conference (Scope: \$95,227 in unallowable and \$138,048* in unsupported costs that were identified as preliminary questioned costs and included in the draft report) • Department sought and gained approval from U.S. Department of Education program officer to repurpose funds to other allowable grant activities 	<ul style="list-style-type: none"> • Completed: June 30, 2015 • Completed: June 1, 2015
<p>3.2: For any questioned costs, both unallowable and insufficiently documented, not previously removed from the</p>	<ul style="list-style-type: none"> • Department will provide documentation of the journal entry shifting remaining questioned 	<ul style="list-style-type: none"> • Completion: May 1, 2015

<p>grant, the Department will provide evidence of a journal entry shifting these expenses off the Race to the Top grant and reassigning the funds to expenses that were allowable under the grant and within the period of availability for the ASD</p>	<p>costs (Scope: \$5,765 in unallowable and \$3,920* in unsupported costs remaining to be shifted)</p>	
<p>3.3: For any unallowable or insufficiently documented expenses unable to be appropriately removed from the grant and replaced with allowable expenses from within the grant period, the Department will return to the U.S. Department of Education the total of these funds.</p>	<ul style="list-style-type: none"> • Department will return any funds not covered under Recommendations 3.1 and 3.2 listed above 	<ul style="list-style-type: none"> • Completion: June 1, 2016
<p>3.4: The Department will provide additional supports to the ASD to ensure strong federal program practices, including in the areas of allowable expenses and documentation.</p>	<ul style="list-style-type: none"> • Department’s support team includes a lead dedicated to working with the ASD federal programs team to redesign and document policies and procedures for federal programs and to ensure robust implementation fidelity 	<ul style="list-style-type: none"> • Support Team in Place: January 1, 2016

*NOTE: These amounts may vary by \$143 pending feedback from OIG regarding a questioned costs for a purchase at Hog & Hominy.

The Department agrees with the original recommendation 3.3, here relabeled 3.5:

Recommendation	Department Corrective Action	Completion/Target Date
<p>3.5: Review a statistical sample of Achievement School District related Race to the Top grant transactions for Area E that we did not review and identify other expenditures that were for unallowable items or activities or were inadequately</p>	<ul style="list-style-type: none"> • Department’s support team will review a statistical sample of Race to the Top transactions for Area E and process any questioned costs by either returning funds, providing additional documentation, or both 	<ul style="list-style-type: none"> • Completion: June 30.2016

documented. If Tennessee identifies such expenditures, then it should return to the Department the amount of expenditures spent for unallowable items and activities, provide sufficient support for any inadequately documented transactions or return the amounts to the Department, or both.		
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Attachments:

1. Questioned Costs Journal Entries
 - a. Tab 1: Issue Categories
 - b. Tab 2: Unallowable Expenses (built from OIG list)
 - c. Tab 3: Unsupported Expenses (built from OIG list)
 - d. Tab 4: Journal Entries Shifting Questioned Costs to Local Funding Sources
 - e. Tab 5: Remaining Expenses to Shift
 - f. Tab 6: Summary: Provides explanation on tie-outs between questioned costs and journal entry

The Department appreciates the opportunity to offer these responses, and welcomes any questions or feedback. The Department is committed to ensuring proper use of federal funds, and aimed to resolve issues flagged through this audit as quickly as possible through mitigations during the grant period. The Department will continue to improve oversight and support to the Achievement School District in its fiscal and federal program operations to ensure efficient and effective administration of its resources. If you have any questions, please do not hesitate to reach out to our Executive Director for Operational Strategy, Sam Percy at sam.percy@tn.gov or (615) 390-2087.

Sincerely,

/s/

Dr. Candice McQueen
Commissioner, Tennessee Department of Education