



U.S. Department of Education  
Office of Inspector General

# IDEA Public Schools' Administration of Grants for the Replication and Expansion of High-Quality Charter Schools

November 22, 2019  
ED-OIG/A05S0013



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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Audit Services

November 22, 2019

Tom Torkelson  
Chief Executive Officer  
IDEA Public Schools  
2115 West Pike Boulevard  
Weslaco, Texas 78596

Dear Mr. Torkelson:

Enclosed is our final audit report, "IDEA Public Schools' Administration of Grants for the Replication and Expansion of High-Quality Charter Schools," Control Number ED-OIG/A05S0013. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education officials, who will consider them before taking final Departmental action on this audit:

Denise L. Carter  
Acting Assistant Secretary for Finance and Operations  
U.S. Department of Education  
400 Maryland Ave, SW  
Washington, DC 20202

Frank Brogan  
Assistant Secretary of Elementary and Secondary Education  
U.S. Department of Education  
400 Maryland Ave, SW  
Washington, DC 20202

The U.S. Department of Education's policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, if you have additional comments, the officials listed above would appreciate receiving them within 30 days.

Sincerely,

/s/

Gary D. Whitman  
Regional Inspector General for Audit

Enclosure

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## Results in Brief

### What We Did

The objectives of our audit were to determine whether Individuals Dedicated to Excellence and Achievement (IDEA) Public Schools (1) reported complete and accurate information on the annual performance reports that it submitted for its Charter Schools Program, Grants to Charter Management Organizations for the Replication and Expansion of High-Quality Charter Schools (Replication and Expansion grants) and (2) spent grant funds in accordance with Federal cost principles and its approved grant applications. Our audit covered the annual performance reports that IDEA Public Schools submitted to the U.S. Department of Education (Department) for the period October 1, 2014, through September 30, 2018.<sup>1</sup> Our audit also covered IDEA Public Schools' financial records relevant to the grantee's expenditures from July 1, 2017, through June 30, 2018.

To determine whether IDEA Public Schools reported complete and accurate information on the annual performance reports that it submitted for its Replication and Expansion grants, we compared the approved grant applications to the information reported in annual performance reports for its 2014, 2016, and 2017 grants. We also obtained and reviewed IDEA Public Schools' records for a judgmentally selected sample of 11 (33 percent) of the 33 performance measures on which IDEA Public Schools reported in its 2016, 2017, and 2018 annual performance reports and compared those records to the information reported to the Department.

To determine whether IDEA Public Schools spent grant funds in accordance with Federal cost principles and its approved grant applications, we obtained and reviewed accounting records for July 1, 2017, through June 30, 2018. We also obtained and reviewed records for samples of personnel and nonpersonnel expenses in excess of \$1,000 that were charged to the Replication and Expansion grants from July 1, 2017, through June 30, 2018.

### What We Found

Despite certifying that annual performance reports were true, complete, and accurate, IDEA Public Schools did not include complete and accurate information for all performance measures on which it was required to report in its 2016, 2017, and 2018 annual performance reports. We found that IDEA Public Schools did not report any information for 61 (84 percent) of the 73 performance measures on which it was required to report in the 2016 and 2017 annual performance reports. In

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<sup>1</sup> The Federal fiscal year is from October 1 through September 30.

September 2018, we informed IDEA Public Schools officials of the missing information for the 61 performance measures. IDEA Public Schools agreed that it did not provide the required information to the Department. The vice president of financial planning for IDEA Public Schools stated that some information required to be reported in annual performance reports is not available in April and must be submitted later in the fall, via email, to the Department. However, IDEA Public Schools did not provide us with records showing that it sent the information for the 61 performance measures to the Department in the fall. In October 2018, IDEA Public Schools submitted to the Department its 2018 annual performance report, which included all but 2 (8 percent) of the 23 performance measures on which IDEA Public Schools was required to report. We also found that IDEA Public Schools did not retain records that supported the information for 5 of the 11 performance measures on which it reported in its 2016, 2017, and 2018 annual performance reports and were included in our sample of performance measures.<sup>2</sup>

As a result of the incomplete and inaccurate reporting, the Department might not have had the information it needed to determine whether IDEA Public Schools was (1) making substantial progress in meeting the performance goals for each Replication and Expansion grant and (2) eligible for continuation awards.

IDEA Public Schools did not report any information for 63 of 96 required performance measures because it did not have a process for ensuring that information for all performance measures was included in the annual performance reports. IDEA Public Schools did not provide accurate information for the performance measures on which it did report because its employees were not provided guidelines for determining which records to use when compiling information for the annual performance report. For example, reports on enrollments and student persistence were created throughout the year, but IDEA Public Schools did not designate which reports should be used to prepare the annual performance report. Finally, IDEA Public Schools did not have a process for retaining all the records supporting the information it reported to the Department (see [Finding 1](#)).

We also found that IDEA Public Schools did not always spend grant funds in accordance with Federal cost principles and its approved grant applications. Specifically, of the \$1,002,406 worth of expenses that we examined, IDEA Public Schools charged \$13,800 (1.4 percent) in unallowable expenses and did not adequately document \$9,735 (1.0 percent) in expenses that it charged to the three grants from July 1, 2017, through

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<sup>2</sup> Because we did not statistically select the sample of performance measures, our results cannot be projected to the universe.

June 30, 2018.<sup>3</sup> Although IDEA Public Schools had written policies and procedures in place for approving purchases and documenting the use of grant funds, it did not have processes in place to provide reasonable assurance that employees consistently adhered to those policies and procedures (see [Finding 2](#)).

## What We Recommend

We recommend that the Assistant Secretary for Finance and Operations, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require IDEA Public Schools to

- provide the omitted performance information for each award;
- develop and implement policies and procedures to provide reasonable assurance that it (1) prepares complete and accurate annual performance reports and reviews the reports for completeness and accuracy before submitting the reports to the Department; (2) retains records to support the information reported in the annual performance reports; and (3) charges only allowable and adequately documented expenses to the Replication and Expansion grant;
- credit the Replication and Expansion grant for \$13,800 in unallowable expenses; and
- provide records supporting the \$9,735 in inadequately documented expenses or credit the Replication and Expansion grant for this amount.

## IDEA Public Schools' Comments

We provided a draft of this report to IDEA Public Schools for comment on August 20, 2019. IDEA Public Schools did not state whether it agreed with Finding 1. However, it agreed with the corresponding recommendations. IDEA Public Schools agreed to implement procedures to track performance measures and to maintain a database for all data reported to the Department. It also agreed to create an annual performance report data policy.

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<sup>3</sup> We selected 82 (3.7 percent) of the 2,199 expenses in excess of \$1,000 that IDEA Public Schools charged to the 3 grants. The dollar value (\$1,002,406) of these 82 expenses amounted to 6.6 percent of the \$15,117,046 in expenses charged to the three grants from July 1, 2017, through June 30, 2018. Because we did not statistically select the sample of expenses, our results cannot be projected to the universe.

IDEA Public Schools did not state whether it agreed with Finding 2. However, it disagreed that it did not document receipt of \$53,442 in testing materials. IDEA Public Schools stated that it did not complete a purchase order for the purchase. Therefore, employees were not required to indicate in the financial system that the testing materials were received before the invoice was paid. IDEA Public Schools stated that it agreed with the remaining recommendations. IDEA Public Schools also stated that it will ensure that internal control processes provide reasonable assurance that unallowable expenses are not charged to Replication and Expansion grant funds.

IDEA Public Schools' comments are summarized at the end of each finding. The full text of IDEA Public Schools' comments is included at the end of this report (see [IDEA Public Schools' Comments](#)).

### **OIG Response**

For Finding 1, we added information about the incomplete reporting and revised Recommendation 1.2 so that it addresses submitting all required annual performance report information by the due dates set by the Department.

We revised Finding 2, removing reference to an inadequately documented \$53,422 expense for testing materials. We also reduced the amount of inadequately documented expenses referenced in Recommendation 2.2. We did not make any other revisions to the findings and recommendations.

# Introduction

## Background

The Charter Schools Program was originally authorized in October 1994 under Title X, Part C of the Elementary and Secondary Education Act of 1965, as amended (ESEA). The program statute was amended in October 1998 by the Charter School Expansion Act of 1998 (Public Law 105-278) and in January 2002 by the No Child Left Behind Act of 2001 (Public Law 107-110).

The Consolidated Appropriations Act of 2010, Division D, Title III (Public Law 111-117) authorized the Department to competitively award grants from funds made available for the Charter Schools Program to nonprofit charter management organizations and other nonprofit entities for the replication and expansion of successful charter school models. From fiscal year 2010 through fiscal year 2016, annual appropriations acts authorized the Department to use Charter Schools Program funds to award grants for this purpose. In December 2015, Title IV, Part C of the ESEA, as amended by the Every Student Succeeds Act of 2015 (Public Law 114-95), authorized the Department's continued use of Charter Schools Program funds to competitively award Replication and Expansion grants.

## Replication and Expansion of High-Quality Charter Schools

Grantees may use Replication and Expansion grant funds to (1) expand opportunities for all students to attend charter schools and meet challenging State academic standards; (2) provide financial assistance for the planning, program design, and initial implementation of public charter schools; (3) increase the number of high-quality charter schools available to students; (4) evaluate the impact of charter schools on student achievement, families, and communities; (5) share best practices between charter schools and other public schools; (6) encourage States to provide facilities support to charter schools; and (7) support efforts to strengthen the charter school authorizing process. Grantees may also use grant funds to expand the enrollment of existing high-quality charter schools or create new charter schools that are based on an existing high-quality charter school model.

From fiscal year 2010 through fiscal year 2017, the Department awarded 78 Replication and Expansion grants worth almost \$649 million to charter management organizations (see [Table 1](#)). In addition to funding for the initial year, grantees are eligible to receive continuation awards for each subsequent year of the grantees' 3-year, 4-year, or 5-year grant periods, subject to the availability of funds. To receive a continuation award, grantees must submit annual performance reports and demonstrate substantial progress toward meeting the goals and objectives of their projects.

**Table 1. Replication and Expansion Grants Awarded to Charter Management Organizations (Fiscal Years 2010 through 2017)**

Fiscal Year	Number of Awards	Total Amount Awarded for Year 1	Total Expected Funding (for All Grant Years)
2010	12	\$19,045,223	\$106,492,274
2011	9	\$12,188,456	\$59,863,381
2012	2	\$5,026,915	\$31,818,475
2014	11	\$11,885,584	\$111,535,467
2015	12	\$15,033,867	\$85,180,498
2016	15	\$17,717,836	\$127,190,638
2017	17	\$52,412,824	\$126,773,527
<b>Totals</b>	<b>78</b>	<b>\$133,310,705</b>	<b>\$648,854,260</b>

The notices inviting applications for the Replication and Expansion grant program for fiscal years 2014, 2016, and 2017, required applicants to propose project-specific performance measures and performance targets consistent with the objectives of the proposed project. All recipients of these grants were also required to submit an annual performance report with information that was relevant to these performance measures and performance targets.<sup>4</sup> According to Title 34, Code of Federal Regulations (C.F.R.) § 75.253, when making a continuation award, the Department considers, in part, the extent to which a grantee has made substantial progress in meeting the objectives in its approved grant application.<sup>5</sup>

Grantees also must only spend Replication and Expansion grant funds in accordance with Federal cost principles. According to 2 C.F.R. § 200.403, to be allowable under Federal awards, costs, among other requirements, must be necessary and reasonable for the performance of the Federal award, be consistent with policies and procedures

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<sup>4</sup> The regulations at 34 C.F.R. § 77.1 define a performance measure as any quantitative indicator, statistic, or metric used to gauge program or project performance. Performance target is defined as a level of performance that an applicant would seek to meet during the course of a project or as a result of a project.

<sup>5</sup> Regulatory citations are to the 2014 volumes.

that apply uniformly to both federally financed and other activities of the non-Federal entity, and be adequately documented.

## **IDEA Public Schools**

IDEA Public Schools is a nonprofit charter management organization formed in June 2000. On June 21, 2000, the State of Texas first authorized IDEA Public Schools to operate as a public charter school pursuant to Title 2, Subtitle C, Chapter 12 of the Texas Education Code. IDEA Public Schools' current charter to operate in the State of Texas runs through July 2025.

On May 25, 2016, pursuant to Title 28, Part 139, Bulletin 126, of the Louisiana Administrative Code, the East Baton Rouge (Louisiana) School Board authorized IDEA Public Schools to open and operate charter schools in its district beginning in 2018.

The Department awarded IDEA Public Schools four, 5-year Replication and Expansion grants: \$14 million in 2010, \$15 million in 2014, \$12 million in 2016, and \$67 million in 2017. As of the start of our audit in August 2018, IDEA Public Schools had received about \$39 million (36.1 percent) of the \$108 million and was serving about 44,000 students enrolled in prekindergarten through 12th grade at 79 IDEA Public Schools throughout Texas and Louisiana.

The approved goals for IDEA Public Schools' 2010 grant were (1) achieve college-ready student results, (2) build a strong and sustainable organization, and (3) grow to scale with quality. IDEA Public Schools planned to open at least two secondary and at least two primary schools for each of the five years of the 2010 grant. The approved goals for the 2014, 2016, and 2017 grants were essentially the same as the 2010 grant's approved goals.

According to its 2014 application, IDEA Public Schools planned to serve 9,464 additional students by opening 18 new schools and expanding 13 existing schools. According to its 2016 application, IDEA Public Schools estimated that, by the end of fiscal year 2021, it would have 8,202 alumni. It also estimated that about 1,486 of its students would graduate high school in 2021 and go on to earn college degrees. According to its 2017 application, IDEA Public Schools planned to expand or replicate 16 schools in Austin, 23 schools in the Rio Grande Valley, 21 schools in San Antonio, and 6 schools in Tarrant County, Texas.

IDEA Public Schools and the Department agreed that IDEA Public Schools would report on 22, 23, and 21 performance measures for its 2014, 2016, and 2017 grants, respectively. Additionally, the Department asked all Replication and Expansion grantees to report on the following three items for the 2014 and 2016 grants in the 2017 annual performance report: (1) the number of operating charter schools in the State, (2) the

number of operating charter schools in the nation, and (3) the Federal cost per student in implementing a successful charter school.<sup>6</sup> Therefore, IDEA Public Schools was required to report on 22 performance measures in its 2016 annual performance report, 51 performance measures in its 2017 annual performance report,<sup>7</sup> and 23 performance measures in its 2018 annual performance report.

IDEA Public Schools' approved grant applications for its 2014, 2016, and 2017 grants stated that IDEA Public Schools intended to use Replication and Expansion funds for personnel, travel, equipment, supplies, materials, contracted services, and miscellaneous operating costs. It planned to use the funds to expand existing schools (by adding grades) and to open schools in new regions, including El Paso, Texas, and Southeast Louisiana.

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<sup>6</sup> The Department defined a successful charter school as a school that had been in operation for 3 or more consecutive years.

<sup>7</sup> For its 2017 annual performance report, IDEA Public Schools was required to report on 51 performance measures—22 measures on which IDEA Public Schools agreed to report for the 2014 grant and the 3 additional measures that the Department required and 23 measures on which IDEA Public Schools agreed to report for the 2016 grant and the 3 additional measures that the Department required. The Department did not require IDEA Public Schools to report on the 3 additional measures for its 2016 and 2018 annual performance reports.

## **Finding 1. Annual Performance Reports Were Incomplete or Inaccurate**

Despite certifying that, to the best of its knowledge and belief, annual performance reports were true, complete, and accurate, IDEA Public Schools did not report complete and accurate information for all performance measures on which it was required to report in its 2016, 2017, and 2018 annual performance reports. As a result, the Department might not have had the information it needed to determine whether IDEA Public Schools was (1) making substantial progress in meeting the performance goals for each Replication and Expansion grant and (2) eligible for continuation awards.

### **Incomplete Annual Performance Reports**

To determine whether IDEA Public Schools reported complete information to the Department, we reviewed the 2016, 2017, and 2018 annual performance reports that IDEA Public Schools submitted to the Department. These three reports included information on the 2014, 2016, and 2017 grants.<sup>8</sup> We found that IDEA Public Schools did not report any information on 61 (83.6 percent) of the 73 performance measures on which it was required to report in the 2016 and 2017 annual performance reports that were due to the Department in April 2016 and April 2017, respectively. In September 2018, we told IDEA Public Schools about the lack of information for the 61 performance measures. IDEA Public Schools agreed that it did not provide the information for the performance measures to the Department. The vice president of financial planning for IDEA Public Schools stated that some information required to be reported in annual performance reports is not available in April and must be submitted later in the fall, via email, to the Department. However, IDEA Public Schools did not provide us with records showing that it sent the information for the 61 performance measures to the Department in the fall.

In October 2018, IDEA Public Schools submitted its 2018 annual performance report to the Department. That report included all but 2 (8.7 percent) of the 23 performance measures on which IDEA Public Schools was required to report for 2018.

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<sup>8</sup> The 2018 annual performance report was a consolidated report covering the 23 performance measures common to the 2014, 2016, and 2017 grants.

**Table 2. Performance Measures Required to Be Reported**

Performance Measures	2016 Report	2017 Report	2018 Report	Totals
Number Required	22	51	23	<b>96</b>
Number Reported	3	9	21	<b>33</b>
Number Not Reported	19	42	2	<b>63</b>
Percentage Not Reported	86.4	82.4	8.7	<b>65.6</b>

### **Inaccurate Annual Performance Reports**

To determine whether IDEA Public Schools reported accurate information to the Department, we judgmentally selected 11 of the 33 performance measures on which IDEA Public Schools reported in its annual performance reports for 2016 (3 measures), 2017 (9 measures), and 2018 (21 measures). We compared the information reported with the records that IDEA Public Schools provided in support of the three reports. We found that IDEA Public Schools reported inaccurate information for 5 (45.5 percent) of the 11 performance measures.<sup>9</sup> We found the following inaccuracies.

- **2016 Annual Performance Report.** IDEA Public Schools reported that 20,970 of its 23,508 students had a low socioeconomic status. IDEA Public Schools provided us with a student enrollment report from the Texas Education Agency that showed a total enrollment of 23,526, not 23,508. When we brought the discrepancy to its attention, IDEA Public Schools stated that the 23,508 was reported in error.
- **2017 Annual Performance Report.** For the 2014 grant, IDEA Public Schools reported that its planned enrollment by 2017 was 28,694. However, IDEA Public Schools provided us with records from the Texas Education Agency that showed its planned enrollment by 2017 was 29,335, not 28,694. When we brought the discrepancy to its attention, IDEA Public Schools stated that 29,335 was the total enrollment according to the Texas Education Agency’s October snapshot, and IDEA Public Schools did not have support for the 28,694 that it reported.

For the 2016 grant, IDEA Public Schools reported that 55 percent of its students graduated from college in 6 years. However, the records showed that only 44 percent of its students graduated from college in 6 years. When we brought

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<sup>9</sup> Although two of the five inaccuracies were minor, we are reporting them because the inaccuracies were caused by a systemic weakness in IDEA Public Schools’ processes for preparing annual performance reports.

the discrepancy to its attention, IDEA Public Schools stated that the 55 percent was reported in error.

- **2018 Annual Performance Report.** IDEA Public Schools reported that 855 students graduated and 100 percent of them were accepted to a 4-year college or university. However, IDEA Public Schools provided us with records that showed 848 graduates applied for and were accepted to a 4-year college or university. When we brought the discrepancy to its attention, IDEA Public Schools stated that the 855 was reported in error.

IDEA Public Schools also reported a student persistence rate of 94 percent but provided us with a student persistence report that showed only an 88 percent student persistence rate.<sup>10</sup> When we brought the discrepancy to its attention, IDEA Public Schools stated that the student persistence rate fluctuated throughout the year because of fluctuations in student enrollment. However, IDEA Public Schools did not provide the student persistence report to support the 94 percent that it reported in the 2018 annual performance report.

### **Grantees Must Submit Performance Reports to Receive Continuation Funding and Must Certify That They Are Submitting Complete and Accurate Reports**

For grants awarded before December 25, 2014, and grants awarded on or after December 26, 2014, 34 C.F.R. § 75.118 requires a recipient wanting a continuation award to submit a performance report providing the most current performance and financial expenditure information that is sufficient to meet the reporting requirements. Additionally, 34 C.F.R. § 74.53(b) requires grantees to retain all financial, supporting, statistical, and other records considered pertinent to an award for 3 years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. For grants awarded on or after December 26, 2014, 2 C.F.R. § 200.328(b) requires grant recipients to submit performance reports that contain, for each grant, a comparison of actual accomplishments to the objectives of the Federal award established for the period.

In its Replication and Expansion grant applications, IDEA Public Schools certified that it would comply with all applicable requirements of all Federal laws, executive orders, regulations, and policies governing the program. Also, by signing each annual performance report, IDEA Public Schools certified that, to the best of its knowledge and

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<sup>10</sup> Student persistence is the percentage of students that start and end the school year at IDEA Public Schools.

belief, the report was true, complete, and accurate, and the expenditures, disbursements, and cash receipts were for the purposes and objectives set forth in the terms and conditions of the grant. In addition, IDEA Public Schools certified that all information in the performance report was true, complete, and correct, and the report fully disclosed all known weaknesses concerning the accuracy, reliability, and completeness of the information reported.

### **IDEA Public Schools Did Not Have Processes for Preparing and Reviewing Annual Performance Reports or Retaining Records to Support Reported Information**

IDEA Public Schools did not report complete and accurate information on all required performance measures because it did not have policies and procedures describing how employees should prepare the annual performance reports for the Replication and Expansion grants. Specifically, IDEA Public Schools did not provide employees with guidelines for determining the specific information to use when compiling information for the annual performance reports. For example, IDEA Public Schools generated reports on enrollment and student persistence throughout the year. However, it did not identify which of these school-generated reports should be used to prepare the annual performance report. In addition, IDEA Public Schools did not have a process for retaining records supporting the information reported in the annual performance reports. Finally, IDEA Public Schools did not have a process for reviewing annual performance reports to provide reasonable assurance that they were complete and accurate before being submitted.

### **Recommendations**

We recommend that the Assistant Secretary for Finance and Operations, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require IDEA Public Schools to—

- 1.1 Provide the Department with records supporting the performance measures on which it did not report for each award. If the records do not demonstrate that IDEA Public Schools made substantial progress towards meeting the objectives set forth in the approved grant applications, then the Department should take appropriate action.
- 1.2 Develop and implement policies and procedures for preparing annual performance reports (to include submitting all required information by the due dates set by the Department) and reviewing the reports for completeness and accuracy before submitting them to the Department.

- 1.3 Develop and implement policies and procedures for retaining supporting documentation for the information reported in the annual performance reports.

### **IDEA Public Schools' Comments**

IDEA Public Schools did not state whether it agreed with the finding but it agreed with all three recommendations. IDEA Public Schools agreed to implement procedures to track performance measures and to maintain a database for all data reported to the Department. IDEA Public Schools also agreed to create an annual performance report data policy by November 30, 2019 (see [IDEA Public Schools' Comments](#)).

### **OIG Response**

IDEA Public Schools did not state what actions it would take to address Recommendation 1.1. Because IDEA Public Schools did not provide us with the policies and procedures it plans to implement to address Recommendations 1.2 and 1.3, we could not assess whether they would be responsive to our recommendations. Therefore, other than adding clarifying language, we did not revise the finding or recommendations.

## **Finding 2. IDEA Public Schools Did Not Always Charge Only Allowable and Adequately Documented Expenses to the Replication and Expansion Grants**

For the expenses included in our sample, IDEA Public Schools charged only allowable and adequately documented personnel expenses to the Replication and Expansion grants. However, it did not always charge only allowable and adequately documented nonpersonnel expenses to the grants. Of the \$681,395 in nonpersonnel expenditures that we reviewed, we found that about 2 percent were unallowable and about 1.4 percent were not adequately documented. As a result, IDEA Public Schools had \$23,535 less in funding available from July 1, 2017, through June 30, 2018, to accomplish the goals set forth in its approved grant application.

### **Personnel Expenses**

We selected 41 of the 1,019 personnel expenses in excess of \$1,000 that IDEA Public Schools charged to its 3 grants from July 1, 2017, through June 30, 2018. The 41 expenses accounted for \$321,011 (4.8 percent) of the \$6,707,750 in personnel expenses in excess of \$1,000 charged to the 3 grants during the period. We found that all 41 expenses were allowable and adequately documented.

### **Nonpersonnel Expenses**

We selected 41 of the 1,180 nonpersonnel expenses in excess of \$1,000 that IDEA Public Schools charged to its 3 grants from July 1, 2017, through June 30, 2018. The 41 expenses accounted for \$681,395 (8.1 percent) of the \$8,409,296 in nonpersonnel expenses in excess of \$1,000 charged to the 3 grants during the period. We found that 36 of the 41 (87.8 percent) nonpersonnel expenses were allowable and adequately documented. However, five expenses were unallowable or inadequately documented.

We found that 2 (4.9 percent) of the 41 expenses were unallowable. IDEA Public Schools charged a \$12,104 expense for reservation and catering fees for a reunion. IDEA Public Schools also did not credit \$1,696 to the Replication and Expansion grant for materials that it returned to a vendor. The unallowable amount of \$13,800 represented 2 percent of the \$681,395 in nonpersonnel expenses that we reviewed.

We also found that 3 (7.3 percent) of the 41 expenses were inadequately documented. IDEA Public Schools charged to the grants two expenses totaling \$5,885 without records showing that employees from the schools attended the training and one \$3,850 expense for supplies without evidence that it confirmed that it received the supplies before

paying the vendor. The inadequately documented amount of \$9,735 represented 1.4 percent of the \$681,395 in nonpersonnel expenses that we reviewed.

- **Training Attendance Not Verified.** IDEA Public Schools charged \$3,291 and \$2,594 to the grant for employees from Tres Lagos school and Rio Grande City school to attend a training conference. However, according to the conference attendee list that IDEA Public Schools provided, no employees from either school attended this training.
- **Receipt of Supplies Not Documented.** IDEA Public Schools paid \$3,850 for supplies that were included on a purchase order for \$151,294. IDEA Public Schools provided us with records indicating that it received \$143,508 of the items included on the purchase order. However, the records did not include enough details for us to determine whether the \$3,850 in supplies were part of the \$143,508 worth of supplies it received.

### **Costs Charged to Federal Awards Must Be Allowable and Adequately Documented**

According to 2 C.F.R. § 200.403, to be allowable under Federal awards, costs, among other requirements, must be necessary and reasonable for the performance of the Federal award, be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity, and be adequately documented. Per 2 C.F.R. § 200.438, costs for entertainment (including amusement, diversion, and social activities and any associated costs) are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.

According to IDEA Public Schools' "Grant Policies & Procedures" manual (August 2017), costs must be properly documented to be considered allowable. The manual states that grant programs are for specified purposes, and costs must be necessary and reasonable to the success of the grant program to be considered allowable. The manual cautions employees to read grant agreements thoroughly to verify costs are allowable. The manual also states that the grant accountant (1) is responsible for, among other things, ensuring that funds are expended in accordance with the approved grant application and (2) must review, every 2 weeks, all transactions posted to the Replication and Expansion grants. If purchase orders are used, the manual states that the grant accountant must review the purchase orders to ensure that all the items included on them constitute allowable uses of grant funds.

According to IDEA Public Schools’ “Accounts Payable Manual” (July 2017), the accounts payable process begins with receipt of the merchandise. For an invoice to be paid, all the items received must first be matched to the invoice with no discrepancies noted.

In general, we found IDEA Public Schools’ policies and procedures for approving and documenting Replication and Expansion grant expenses to be detailed, logical, and understandable. However, IDEA Public Schools did not have a process to provide reasonable assurance that employees followed the policies and procedures for approving purchases and documenting the use of Replication and Expansion grant funds. Specifically, IDEA Public Schools’ policies and procedures did not indicate that management should periodically check to ensure that employees confirmed (1) expenses were allowable uses of Replication and Expansion grant funds before approving them, (2) training attendance records adequately supported that employees attended the training for which an expense was charged to the grant, and (3) supplies were received before paying for them.

## **Recommendations**

We recommend that the Assistant Secretary for Finance and Operations, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require IDEA Public Schools to—

- 2.1 Credit, using a non-Federal source of funds, the Replication and Expansion grant for the \$13,800 in unallowable expenses.
- 2.2 Provide records supporting the \$9,735 in inadequately documented expenses or credit, using a non-Federal source of funds, the Replication and Expansion grant for the amount of the inadequately documented expenses.
- 2.3 Develop a quality control process to provide reasonable assurance that employees adhere to written policies and procedures for approving purchases and documenting the use of Replication and Expansion grant funds.

## **IDEA Public Schools’ Comments**

IDEA Public Schools did not state whether it agreed with Finding 2. However, it disagreed that it did not adequately document receipt of \$53,442 in testing materials. IDEA Public Schools stated that it did not complete a purchase order for the purchase. Therefore, employees were not required to indicate in the financial system that the testing materials were received. IDEA Public Schools agreed that it did not retain adequate documentation for \$5,885 paid for training attendance and \$3,850 paid for supplies. IDEA Public Schools agreed with Recommendations 2.1 and 2.3. It also stated that it would contact the Department to determine the preferred method of payback for the two unallowable and three inadequately documented expenses. IDEA Public Schools

further stated that it will ensure that its internal control processes provide reasonable assurance that unallowable expenses are not charged to Replication and Expansion grant funds (see [IDEA Public Schools' Comments](#)).

### **OIG Response**

IDEA Public Schools' "Accounts Payable Manual" states that invoices for direct payments (those without purchase orders) should be routed directly to the accounts payable supervisor for approval before the vendor may be paid. During our audit, IDEA Public Schools provided evidence that an invoice for \$53,422 in testing materials was approved by the accounts payable supervisor, as required by IDEA Public Schools' policy. Because the "Accounts Payable Manual" did not clearly indicate whether records showing confirmation of receipt of goods and services should be obtained before the vendor is paid, we also requested records showing that the school received the testing materials before paying for them.

In its response to the draft of this report, IDEA Public Schools stated that, for invoices without purchase orders, its policy does not require that confirmation of receipt of goods or services be entered in its financial systems before the vendor is paid. Therefore, we deleted from the finding the reference to \$53,422 in inadequately documented testing materials. We also reduced the amount referenced in Recommendation 2.2 from \$63,157 to \$9,735. We did not make any other changes to the finding and recommendations.

## **Other Matter. Incorrect Benefit Rate Used**

IDEA Public Schools used an incorrect rate when calculating Federal Teacher Retirement System of Texas benefits for employees. According to the director of accounting for IDEA Public Schools, the Teacher Retirement System of Texas informed IDEA Public Schools in January 2019 that it used an incorrect benefits rate from September 2017 through June 2018. The use of an incorrect rate resulted in a \$162,363 underpayment to the benefits account. The Department should follow up with IDEA Public Schools to ensure that it reimbursed the benefits account for the underpayment and that it only charged the Replication and Expansion grant for the appropriate share of the reimbursement.

### **IDEA Public Schools' Comments**

IDEA Public Schools did not provide comments on this other matter.

## Appendix A. Scope and Methodology

We evaluated the completeness and accuracy of the performance measures on which IDEA Public Schools reported in the annual performance reports for its 2014, 2016, and 2017 Replication and Expansion grants by reviewing the grantee’s records covering the period October 1, 2014, through September 30, 2018. We evaluated IDEA Public Schools’ use of Replication and Expansion grant funds by reviewing records covering the grantee’s expenditures from July 1, 2017, through June 30, 2018.

We first gained an understanding of the law, regulations, and policies that were relevant to IDEA Public Schools’ administration of the Replication and Expansion grant by reviewing the following:

- Title IV, Part C of the ESEA, as amended;
- “Education Department General Administrative Regulations;”
- Title 2 C.F.R. Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;”
- “Charter Schools Program Title V, Part B of the ESEA Nonregulatory Guidance (January 2014);”
- 2011 Notice of “Final Priorities, Requirements, Definitions, and Selection Criteria; Charter Schools Program Grants for Replication and Expansion of High-Quality Charter Schools;”
- Office of Innovation and Improvement Dear Colleague Letter on ESEA Flexibility to Current Grant Recipients (November 15, 2017); and
- IDEA Public Schools’ approved grant applications for its 2014, 2016, and 2017 awards and any subsequent changes that the Department approved.

We then gained an understanding of IDEA Public School’s policies and procedures for reporting information in annual performance reports, authorizing expenditures of grant funds, and ensuring grant funds are spent only on allowable activities. Next, we compared IDEA Public Schools’ records to the information it reported to the Department on its 2016, 2017, and 2018 annual performance reports. Finally, we reviewed records, such as invoices and time and effort documentation, for a sample of expenses in excess of \$1,000 that IDEA Public Schools charged to the Replication and Expansion grants.

### Internal Control

After reviewing the law, regulations, and policies relevant to the administration of Replication and Expansion grants, we determined that IDEA Public Schools' control

activities for ensuring that it submitted complete and accurate information to the Department in the annual performance reports and for ensuring that grant expenses were allowable and adequately documented were significant to the audit objectives.<sup>11</sup>

We gained an understanding of the control activities over reporting information in annual performance reports by interviewing IDEA Public Schools officials and employees responsible for the Replication and Expansion grants. We gained an understanding of the performance measures on which the grantee was required to report each year and what those performance measures should represent by reviewing the three approved grant applications.

We gained an understanding of IDEA Public Schools' control activities over authorizing expenditures of grant funds and ensuring that funds were spent only on allowable activities by interviewing IDEA Public Schools officials and employees responsible for authorizing, obligating, and recording the expenditure of Replication and Expansion grant funds. We also reviewed policies and procedures and accounting records, including a list of all expenses, covering July 1, 2017, through June 30, 2018.

To determine whether IDEA Public Schools implemented its control activities as designed, we selected samples of performance measures and expenses and used analysis techniques to assess implementation of the control activities over reporting information on the annual performance reports and spending grant funds. We identified deficiencies in IDEA Public Schools' control activities. Specifically, we found that IDEA Public Schools did not have policies and procedures for (1) determining the specific information employees should use when compiling information for the annual performance reports, (2) reviewing annual performance reports for completeness and accuracy before submitting them to the Department, or (3) retaining records to support the information that was reported in the annual performance reports (see [Finding 1](#)). We also concluded that IDEA Public Schools did not have a process to provide reasonable assurance that employees followed policies and procedures for approving purchases and documenting the use of Replication and Expansion grant funds (see [Finding 2](#)).

## Sampling Methodology

To achieve our audit objectives, we selected samples of reported performance measures, personnel expenses charged to the grants, and nonpersonnel expenses charged to the grants.

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<sup>11</sup> Control activities are the policies, procedures, and practices that management establishes to achieve objectives and respond to risks.

## Reported Performance Measures

We judgmentally selected 11 (33 percent) of the 33 performance measures on which IDEA Public Schools reported in its 2016, 2017, and 2018 annual performance reports for its 3 Replication and Expansion grants. We selected two performance indicators that the Department established to measure progress towards meeting the Replication and Expansion grant program's goals: (1) the number of charter schools in operation around the United States and (2) the percentage of fourth and eighth grade charter school students who are achieving at or above the proficient level on State examinations in mathematics and reading. We also selected measures (such as enrollment and student persistence) that could only be supported by IDEA Public Schools' records. We determined that such measures were more susceptible to manipulation than measures that could be verified by external sources, such as the Texas Education Agency.

Specifically, we judgmentally selected the following 11 performance measures.

1. Percentage of students with low socioeconomic status (2014 grant, 2016 annual performance report).
2. Number of charter schools in operation (2014 grant, 2016 annual performance report).
3. Enrollment number for the next academic fiscal year (2014 grant, 2017 annual performance report).
4. Percentage of students graduating college in 6 years (2016 grant, 2017 annual performance report).
5. Number of charter schools in operation (2016 grant, 2017 annual performance report).
6. Percentage of 4th and 8th grade charter school students performing at or above the State level in mathematics and reading (2014, 2016, and 2017 grants, 2018 annual performance report).
7. Percentage of graduates who are accepted to a 4-year college or university (2014, 2016, and 2017 grants, 2018 annual performance report).
8. Average ACT score (2014, 2016, and 2017 grants, 2018 annual performance report).
9. Student persistence rate (2014, 2016, and 2017 grants, 2018 annual performance report).
10. Percentage of students with low socioeconomic status (2014, 2016, and 2017 grants, 2018 annual performance report).

11. Number of Replication and Expansion grant-funded schools in operation (2014, 2016, and 2017 grants, 2018 annual performance report).

Because we did not statistically select the sample of performance measures, our results cannot be projected to the universe.

### **Personnel Expenses Charged to the Replication and Expansion Grants**

We selected 41 of the 1,019 personnel expenses in excess of \$1,000 that IDEA Public Schools charged to the 2014, 2016, or 2017 grants from July 1, 2017, through June 30, 2018. The 41 expenses amounted to 4.8 percent (\$321,011) of the \$6,707,750 in relevant personnel expenses charged to the 3 grants during the period. We judgmentally selected the personnel expenses with the highest dollar value in each of the six personnel object code categories: employee stipends, extra duty pay, group health insurance, health reimbursement benefit, teacher retirement, and wages. We also randomly selected 35 of 1,013 expenses from the 6 personnel object code categories. Because we did not statistically select the expenses, our results cannot be projected to the universe of personnel expenses within the level of precision required by our policy.

### **Nonpersonnel Expenses Charged to the Replication and Expansion Grants**

We selected 41 of the 1,180 nonpersonnel expenses in excess of \$1,000 that IDEA Public Schools charged to the 3 grants from July 1, 2017, through June 30, 2018. The 41 expenses amounted to 8.1 percent (\$681,395) of the \$8,409,296 in relevant nonpersonnel expenses that IDEA Public Schools charged to the 3 grants during the period. We judgmentally selected the nonpersonnel expenses with the highest dollar value in each of the 16 nonpersonnel object code categories: consulting services, contracted services, electricity, employee travel, general supplies, maintenance and repair, miscellaneous, reading material, rentals-one time, rentals-operating leases, student travel, supplies and materials, supplies for maintenance, telecommunications, testing materials, and textbooks. We also randomly selected 25 of the 1,164 expenses from the 16 nonpersonnel object code categories. Because we did not statistically select the expenses, our results cannot be projected to the universe of nonpersonnel expenses within the level of precision required by our policy.

### **Analysis Techniques**

To determine whether IDEA Public Schools reported complete and accurate information on the annual performance reports it submitted, we compared the three approved grant applications and any subsequent changes to the information in the three annual performance reports on the 2014 grant, the two reports on the 2016 grant, and the only

report on the 2017 grant. Next, we obtained enrollment reports, attendance reports, charter authorization records, testing results, and college acceptance letters for 11 of 33 performance measures and compared those records to the information reported to the Department. If we identified any discrepancies, we asked IDEA Public Schools officials or employees to explain the discrepancies and provide additional records to support their explanations.

To determine whether IDEA Public Schools spent grant funds in accordance with Federal cost principles and its approved grant applications, we reviewed invoices, purchase orders, training attendee lists, receiving reports, time and effort documentation, benefit rates, and salary schedules for the expenses in excess of \$1,000 and charged to the Replication and Expansion grants. If we identified expenses that were unallowable or inadequately documented, we asked IDEA Public Schools officials or employees to provide an explanation for why unallowable expenses were approved and to provide additional records for any expenses that we considered inadequately documented.

### **Use and Reliability of Computer-Processed Data**

To achieve our objectives, we relied, in part, on computer-processed performance measure and expenditure data that IDEA Public Schools provided. We assessed the reliability of the data by looking for incomplete or illogical data, such as numerical values in fields that should have contained only nonnumerical values, nonnumerical values in fields that should have contained only numerical values, missing or blank fields where not expected, duplicate data, values outside a designated range, and values outside valid periods. We also compared the performance measure data to enrollment reports, attendance reports, and college acceptance letters and the expenditure data to invoices, purchase orders, semiannual certifications, and a revenue and expense report showing the disbursement dates and amounts of Replication and Expansion grant funds that IDEA Public Schools received from the Department.

Based on these analyses and comparisons, we concluded that the computer-processed performance measure and expenditure data were sufficiently reliable for the purposes of our audit.

### **Compliance with Standards**

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

We conducted this audit at IDEA Public Schools' offices in Weslaco, Texas, and our offices from August 2018 through August 2019. We discussed the results of our audit with officials from IDEA Public Schools on June 27, 2019, and received their comments on the draft of this report on September 20, 2019.

## Appendix B. Acronyms and Abbreviations

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
fiscal year	October 1 through September 30
IDEA Public Schools	Individuals Dedicated to Excellence and Achievement Public Schools
ESEA	Elementary and Secondary Education Act of 1965
Replication and Expansion grants	Charter Schools Program Grants for Replication and Expansion of High-Quality Charter Schools

# IDEA Public Schools' Comments



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September 20, 2019

**ED-OIG/A05S0013**

Below you will find the responses on the behalf of IDEA Public Schools:

**1.1, 1.2 & 1.3**

IDEA Public Schools concurs with the recommendation. Procedures will be implemented in order to track performance measures and to maintain a database for all the data that is being reported to the Department of Education. The Department of Education has also implemented new changes with reporting updates after submitting the Annual Performance Reports. All performance data updates will be reported in the upcoming APR that is due every year in the month of April

For example, final data for the 2018-19 fiscal year, will be reported in the APR that is due in April 2020.

IDEA Public Schools will complete an APR Performance Data policy by November 30, 2019.

**2.1**

IDEA Public Schools concurs with the recommendation. The Project Director will be working with the Business Office to make sure internal controls are being followed to avoid having un-allowed expenses charged to the grant.

IDEA Public Schools will also contact the Department of Education to verify the preferred method of payback.

**2.2**

**Training Attendance Not Verified:** IDEA Public Schools concurs with the exception.

IDEA Public Schools will also contact the Department of Education to verify the preferred method of payback.

**Receipt of Materials Not Documented:** IDEA Public Schools has submitted a signed copy of the invoice (\$53,442) as proof of receipt. When invoices are paid as a direct payment, receiving in our financial software is not completed since a purchase order was not completed for this purchase. In order to comply with receiving requirements, a signed invoice was submitted as proof of receipt for the items purchased.



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**Receipt of Supplies Not Documented:** IDEA Public Schools concurs with the exception.

IDEA Public Schools will also contact the Department of Education to verify the preferred method of payback.

**2.3**

IDEA Public Schools concurs with the recommendation. The Project Director will work with the Business Office to develop and ensure internal controls processes provide reasonable assurance employees adhere to written policies for approving purchases to mitigate unallowed expense being charged to Replication and Expansion grants funds.

/s/

Leanne Hernandez  
Sr. VP of Financial Planning