



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

ACHIEVEMENT SCHOOL DISTRICT

Performance Audit Report

August 2016

Justin P. Wilson, Comptroller



**Division of State Audit
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August 15, 2016

The Honorable Ron Ramsey,
Speaker of the Senate
and
The Honorable Beth Harwell,
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Dr. Candice McQueen,
Commissioner
Tennessee Department of Education
710 James Robertson Parkway; 9th Floor
Nashville, TN 37243
and
Ms. Malika Anderson, Superintendent
Achievement School District
710 James Robertson Parkway; 9th Floor
Nashville, TN 37243

Ladies and Gentlemen:

We have conducted a performance audit of certain activities of the Department of Education's Achievement School District for the period July 1, 2015, through June 30, 2016.

Our audit disclosed certain findings that are detailed in the Audit Conclusions section of this report. Managements of the Department of Education and the Achievement School District have responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving internal control and instances of noncompliance to the Department of Education and the Achievement School District's management in a separate letter.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/jw
16/128

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Achievement School District
August 2016

AUDIT SCOPE

We have audited the Department of Education's Achievement School District for the period July 1, 2015, through June 30, 2016. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of human resources; fiscal operations for expenditures, purchasing cards, and fiscal monitoring; and the priority school placement process. Management in both the Department of Education and in the Achievement School District are responsible for establishing and maintaining effective internal controls and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

We conducted our 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.

CONCLUSIONS

AUDIT FINDINGS

The Achievement School District's management did not establish adequate controls over several key human resources and payroll processes

According to Section 49-1-614 (g) (1), *Tennessee Code Annotated*, "The ASD [Achievement School District] shall develop written procedures, subject to the approval of the commissioner, for employment and management of personnel as well as the development of compensation and benefit plans." During our audit, we found seven key areas where ASD did not establish processes over key human resources and payroll functions, including segregating duties; maintaining personnel files; verifying education credentials; documenting time and attendance; completing performance reviews; documenting approvals of bonuses and pay raises; and exiting employees (see page 14).

The Achievement School District's management failed to implement adequate internal controls over its expenditures, travel claims, and purchasing card purchases

Based on our testwork, we found several deficiencies that indicate that ASD management did not establish adequate internal controls over expenditures and purchasing card purchases. Specifically, we noted that management did not properly approve expenditures, travel claims, and purchasing card purchases, nor did they provide adequate support for some transactions (see page 26).

The Achievement School District's fiscal management did not perform sufficient fiscal monitoring of its direct-run schools and charter management organizations

Considering the problems identified in previous Tennessee Single Audits, we inquired with management to determine if ASD management conducted fiscal monitoring of ASD's Achievement Schools and charter management organizations; we found that ASD's main office staff do not conduct such monitoring (see page 31).

The Achievement School District did not provide adequate internal controls in one specific area

ASD did not design and monitor internal controls in one specific area (see page 32).

OBSERVATIONS

The following topics are included in this report because of the effect on the operations of the Department of Education, the Achievement School District, and the citizens of Tennessee: Achievement School District's mission status (see page 9); and although the Achievement School District is an organizational unit of the Tennessee Department of Education, the statute provides and the department chose to allow ASD to operate autonomously in all respects, thus preventing the department's prompt recognition and reaction to ASD's administrative actions (see page 10).

Performance Audit Achievement School District

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Performance Audit Achievement School District

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the performance audit of the Tennessee Department of Education's Achievement School District. Section 8-4-109, *Tennessee Code Annotated*, states the following:

The comptroller of the treasury is hereby authorized to audit any books and records of any governmental entity created under and by virtue of the statutes of the state of Tennessee which handles public funds when such audit is deemed necessary or appropriate by the comptroller of the treasury. The comptroller of the treasury shall have the full cooperation of officials of the governmental entity in the performance of such audit or audits.

The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to audit all accounts and financial records of any state department, institution, office, or agency in accordance with both generally accepted auditing standards and procedures established by the Comptroller. An audit may include any or all of the following elements: financial, compliance, economy and efficiency, program results, and program evaluations.

BACKGROUND

Department of Education, Achievement School District (ASD), and Priority Schools

ASD's Creation and Purpose

The Tennessee First to the Top Act of 2010 established the Achievement School District (ASD) as a local education agency within the organizational structure of the Tennessee Department of Education. The ASD was created as an intervention that the Commissioner of Education may require to turn around the state's lowest performing schools.

Even though ASD is a departmental unit, the department has allowed it to operate autonomously from the department and similarly to a traditional local education agency that is attached to a county or city government.

Section 49-1-614, *Tennessee Code Annotated*, specifically requires ASD to directly operate or contract with entities to manage the day-to-day operations of any or all schools placed under its jurisdiction. Whether ASD operates schools directly or contracts with other entities,

ASD maintains authority over the schools in its care for a minimum of five years. After a school shows improvement in student performance for two consecutive years, the Commissioner of the Tennessee Department of Education can develop a transition plan to move the school back to its original local education agency after five years.

Priority Schools

Priority schools represent the state's bottom 5% of schools in terms of overall achievement. Pursuant to Section 49-1-602(b)(1), *Tennessee Code Annotated*, effective September 1, 2012, the Commissioner is required to identify the state's lowest-performing schools (called "priority schools") at a minimum of every three years. The Commissioner's review is based on an evaluation of all schools' achievement data and is meant to improve students' academic performance. The Commissioner must submit the list of low-performing schools identified to the State Board of Education for approval. The board's approval of the list signifies recognition that these schools are to have priority status based on the rules, regulations, and performance standards established by the board.

The State Board of Education approved the most recent priority schools list, containing 85 schools, on August 26, 2014. A breakdown of priority schools by local education agency is in Appendix 1 on page 37.

Additionally, Section 49-1-602(b)(2), *Tennessee Code Annotated*, states that schools identified as priority schools will be subject to one of the following three intervention methods as approved by the Commissioner:

1. The local education agency that has the authority for the priority school can adopt an identified school improvement grant intervention model¹ or other school improvement process led by a local education agency, subject to the Commissioner's approval.
2. The local education agency with a priority school can establish an innovation zone (I-Zone), which is a subset of the agency that receives additional funding to implement new or different academic approaches to improve performance. The local education agency must submit an I-Zone plan to the Department of Education and list any schools that will be included in it. If approved by the Commissioner, the local education agency must establish an I-Zone office within the school district and appoint a leader with management authority over the I-Zone. Although the I-Zone schools remain under the management of the local education agency, these schools have autonomy and flexibility over financial, programmatic, and staffing decisions.
3. The local education agency with identified priority schools can have its schools placed in the Achievement School District (ASD); however, no school identified as a

¹ According to *Defining Tennessee Education: A Glossary of Education Terms*, published by the Office of the Comptroller of the Treasury, Office of Research and Education Accountability, the School Improvement Grant is a federally funded, competitively awarded grant offered through the Tennessee Department of Education to local education agencies that demonstrate a commitment to use these funds to improve student academic achievement.

priority school shall be placed in ASD if, after the school is identified as a priority school but before the Commissioner determines that the school should be assigned to ASD, the school demonstrates student achievement growth at a level of “above expectation” or greater, as represented by the Tennessee Value-Added Assessment System.²

For our audit purposes, we focused our efforts on the ASD intervention method whereby priority schools were placed with ASD.

ASD’s Main Office Organization

As of June 30, 2016, ASD consists of five teams representing its main office:

- The Office of the Superintendent guides the district’s long-term strategic planning, sustainability planning, organizational development, and ASD’s performance management. Team members support cross-functional strategic projects and general office management.
- The Communications and Community Engagement team works with other ASD teams, its charter management organizations, and the community to capture feedback, cultivate relationships, and empower community advocates to fulfill ASD’s mission of school turnaround and transformation.
- The New Schools and Accountability team contracts with charter management organizations to operate schools, ensures that all schools within its district are meeting academic performance expectations, and works with the community to ensure the schools and its students are successful.
- The Student Equity and Access team ensures students’ educational access and equity rights in accordance with federal and state laws and works with ASD schools to provide equitable access to educational services and outcomes for all eligible students.
- The Operations team handles ASD’s network and information systems; facilities management and capital repair planning; and human resources. This team is led by the Chief Operations Officer, who also serves as ASD’s General Counsel.

ASD’s
organizational
chart is on page
8.

From ASD’s inception in fiscal year 2011 until June 30, 2016, ASD’s organizational structure included the Financial and Federal Programs team, which reported to ASD’s Chief Financial Officer. This team was responsible for ASD’s budget and financial processes and federal program monitoring at the school level. On July 1, 2016, the Tennessee Department of Education transferred ASD’s Financial and Federal Program team positions to its own Office of

² According to *Defining Tennessee Education: A Glossary of Education Terms*, the Tennessee Value-Added Assessment System (TVAAS) is a statistical method based on standardized test data that is used to measure the influence of a district, school, or teacher on the academic progress (growth rates) of individual students or groups of students from year to year. The concept behind TVAAS is that schools should add value every school year for each student, regardless of whether the student begins the year above, at, or below grade level.

the Chief Financial Officer. For more information relating to ASD's fiscal operations and the results of our audit work, please see page 23.

ASD's Organization for School Takeover Operation

To fulfill its mission for priority school placement, ASD has the option under the statute to directly take over and operate priority schools or to contract with charter management organizations that ultimately take responsibility for improving the priority schools they select.

ASD's Direct-Run Schools

ASD established the Achievement Schools Team, led by an Executive Director, to assume responsibility for direct-run priority schools under its jurisdiction. Currently, ASD operates five direct-run schools, called Achievement Schools, in Memphis' Frayser community. The Achievement Schools Team includes a Chief Financial Officer who handles the operational needs of the direct-run priority schools under ASD's authority. The Achievement Schools Team is also responsible for hiring school administrators, teachers, and support staff who work in the schools. This team also works closely with the main office's team of financial and operations staff.

Charter Management Organization and ASD's Role

For the remaining schools under its jurisdiction, ASD contracts with charter management organizations to run their day-to-day operations. Section 49-1-614, *Tennessee Code Annotated*, permits ASD to act as a charter authorizer, which is an entity responsible for overseeing schools that are operated by independent nonprofit governing bodies called charter management organizations (CMOs). CMOs are permitted to take over an existing school or create one of their own for the purposes of offering education alternatives to families who have children attending priority schools in the community. ASD's responsibilities in relation to the CMOs include

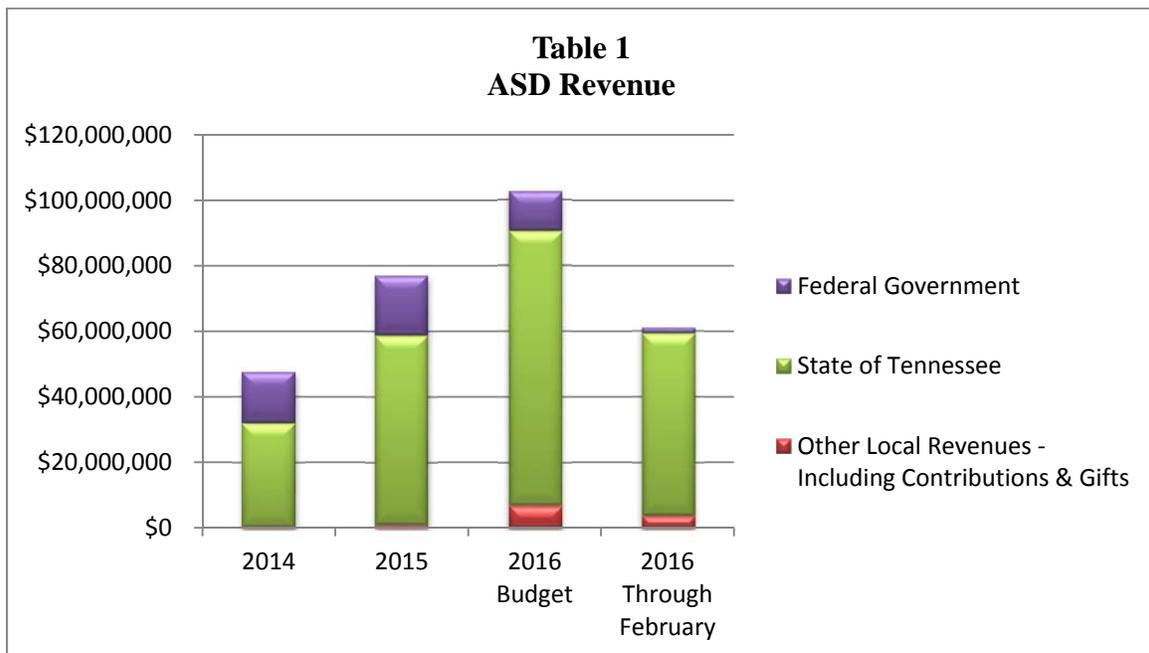
- approving or denying applications from CMOs to operate schools;
- drafting and negotiating charter agreements;
- overseeing the academic, organizational, and financial health of the CMO-run schools; and
- renewing contracts with successful CMOs while closing CMO-run schools that fail to meet academic and financial expectations.

Schools Under ASD's Jurisdiction

As of school year 2015-2016, in addition to its 5 direct-run Achievement Schools, ASD contracted with CMOs to operate 24 schools. For school year 2016-2017, ASD added 4 more CMO-operated schools in Memphis to its portfolio, for a total of 33. See ASD's school portfolio in Appendix 2 on page 38.

ASD's Funding Sources

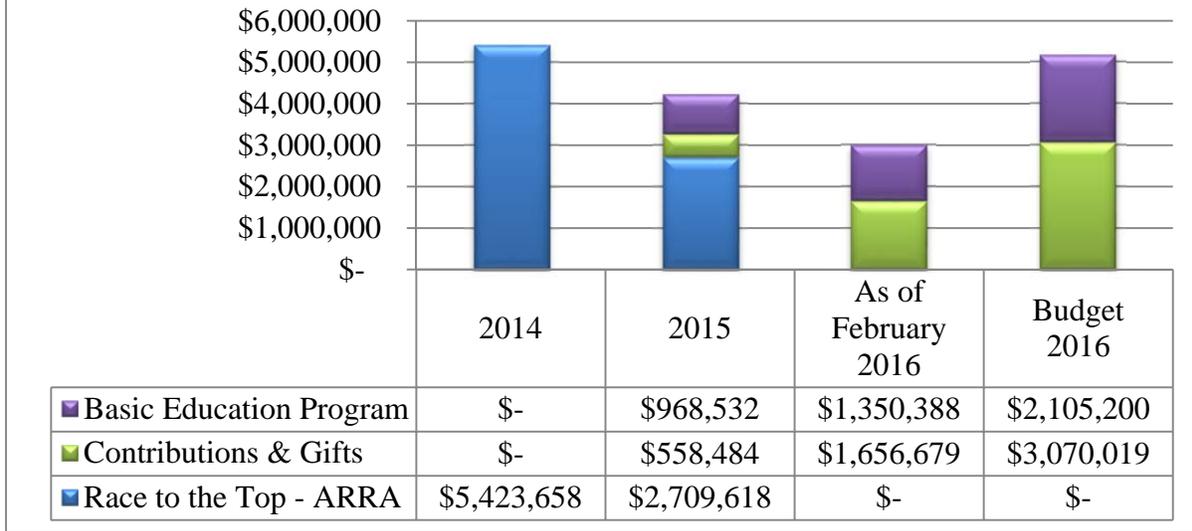
ASD is authorized by statute to collect funding from federal, state, and private sources and to “seek, receive, expend, manage, and retain [funds] with the same authority as an [local education agency].” ASD receives the same state and federal funds as other local education agencies within the state, including Basic Education Program, federal Title 1 Part A, Individuals with Disabilities Education Act, and other funds that fund school operations. Relating to Basic Education Program funding, however, the Department of Education is responsible for distributing directly to ASD all state and local funding that the department would otherwise distribute to the original local education agency where ASD schools are located. For schools placed in ASD, the department estimates the amount of local education funding the original local education agency would have received and withholds that amount, along with state funding for these schools, from the original agency’s total state funding and distributes the funding to ASD. For fiscal year 2015, ASD received approximately \$77 million in federal, state, and private funding. See Table 1.



At its inception, the operations of ASD’s main office were funded through the federal Race to the Top grant, which ended on June 30, 2015. Currently, ASD is funded through state and private funds. Beginning July 1, 2015, ASD established a charter authorizer fee that is charged to the CMOs. The fee is calculated based on \$200 per student enrolled.³ ASD withholds the fee from the CMOs’ Basic Education Program funding. See Table 2.

³ According to *Defining Tennessee Education, A Glossary of Education Terms*, average daily membership is a measure of student enrollment. It represents how many students are enrolled in school and is commonly used for per-pupil funding calculations.

**Table 2
ASD Main Office Funding**



ASD’s Reimbursement Process for State and Federal Funding From the Department of Education through June 30, 2016

For grants, the Tennessee Department of Education reimburses ASD for actual costs incurred to provide education to the state’s schoolchildren. ASD then submits consolidated reimbursement requests to the department as needed to recoup the costs of providing services.

State Basic Education Program Funding

At the beginning of the fiscal year, the Department of Education calculates the local education agencies’ Basic Education Program allocation based on average student enrollment⁴ and distributes 1/10 of the allocation each month. Throughout the year and at year end, the department reconciles these allocations based on actual student enrollment.

ASD’s Reimbursement Process to CMOs and Achievement Schools

As defined by their contracts, CMOs are financially responsible for their schools’ operational and payroll costs, and they submit reimbursement requests to ASD’s main financial and federal programs team at least quarterly to recover the operational and payroll costs. ASD’s financial staff review these requests and the supporting documentation and approve the CMOs’ reimbursements for payment.

In order to seek reimbursement for its own direct-run school operation costs, ASD requires each of the Achievement Schools to enter the transactions directly into NetSuite, ASD’s accounting system. Once the individual schools enter their transactions, the Achievement Schools Team’s Chief Financial Officer is responsible for compiling and providing the

⁴ Known as average daily membership. See footnote 3 on page 5.

supporting documentation for the direct-run schools' expenditures to ASD's main financial and federal programs team so that the team can submit a consolidated reimbursement request to the department.

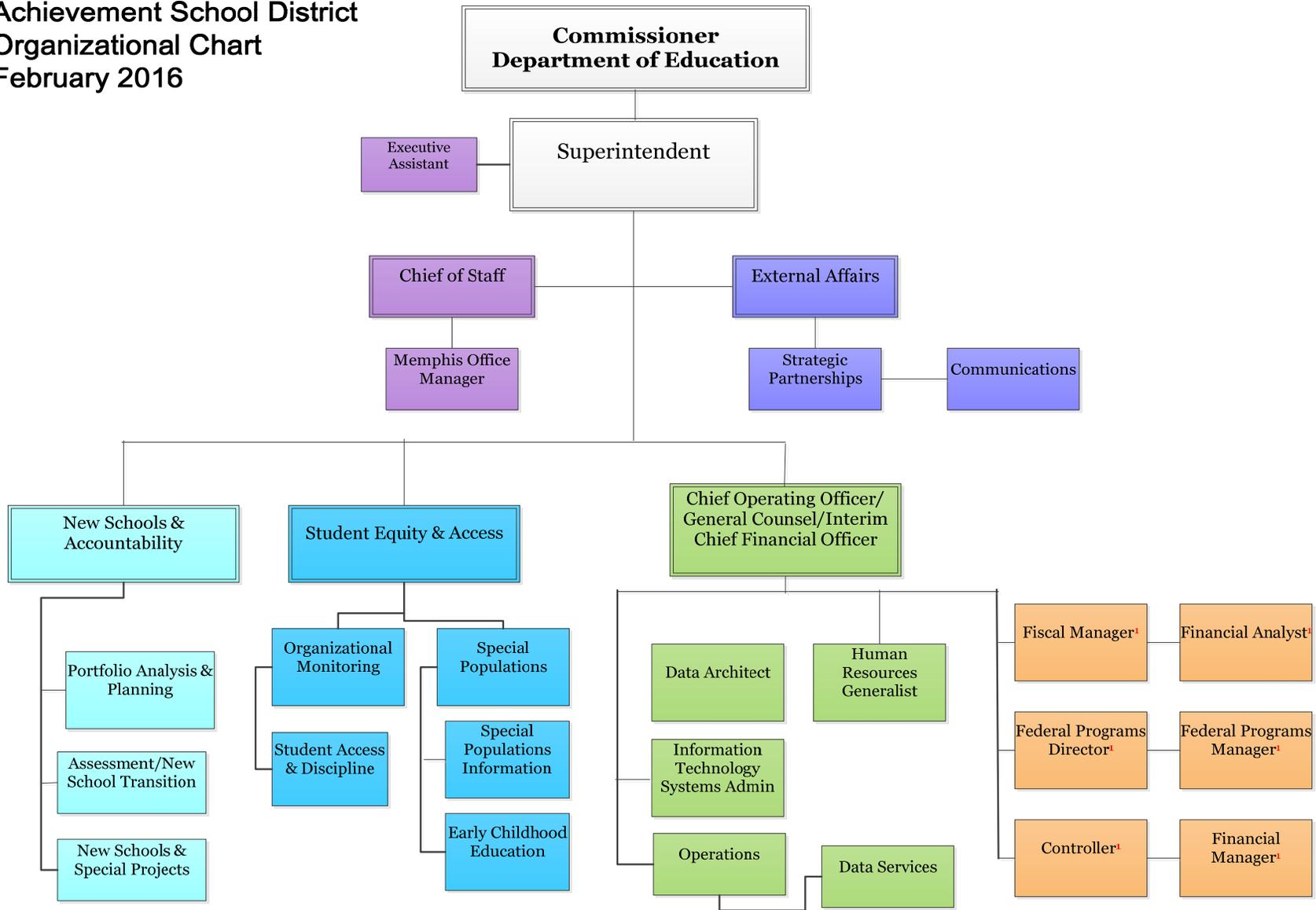
ASD's Reimbursement Request to the Tennessee Department of Education

In order to obtain funding from the department, ASD's main office submits to the department a consolidated reimbursement request, consisting of the individual reimbursements to the CMOs as well as the Achievement Schools' expenditures. In our 2015 Single Audit of the Department of Education, we reported that the department's fiscal staff did not review the supporting documentation attached to ASD's consolidated reimbursement requests before approving and paying ASD.

Our current audit scope did not include an audit of the consolidated reimbursement requests. We will audit the department's reimbursements and consolidated reimbursement requests as part of the state's next Single Audit. We did perform testwork related to ASD's fiscal operations. See the audit results on page 23.

An organization chart of the Achievement School District is on the following page.

**Achievement School District
Organizational Chart
February 2016**



¹ On July 1, 2016, the financial and federal programs positions transferred to the Tennessee Department of Education.

AUDIT SCOPE

We have audited the Department of Education's Achievement School District for the period July 1, 2015, through June 30, 2016. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of human resources; fiscal operations for expenditures, purchasing cards, and fiscal monitoring; and the priority school placement process. Management in both the Department of Education and in the Achievement School District are responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

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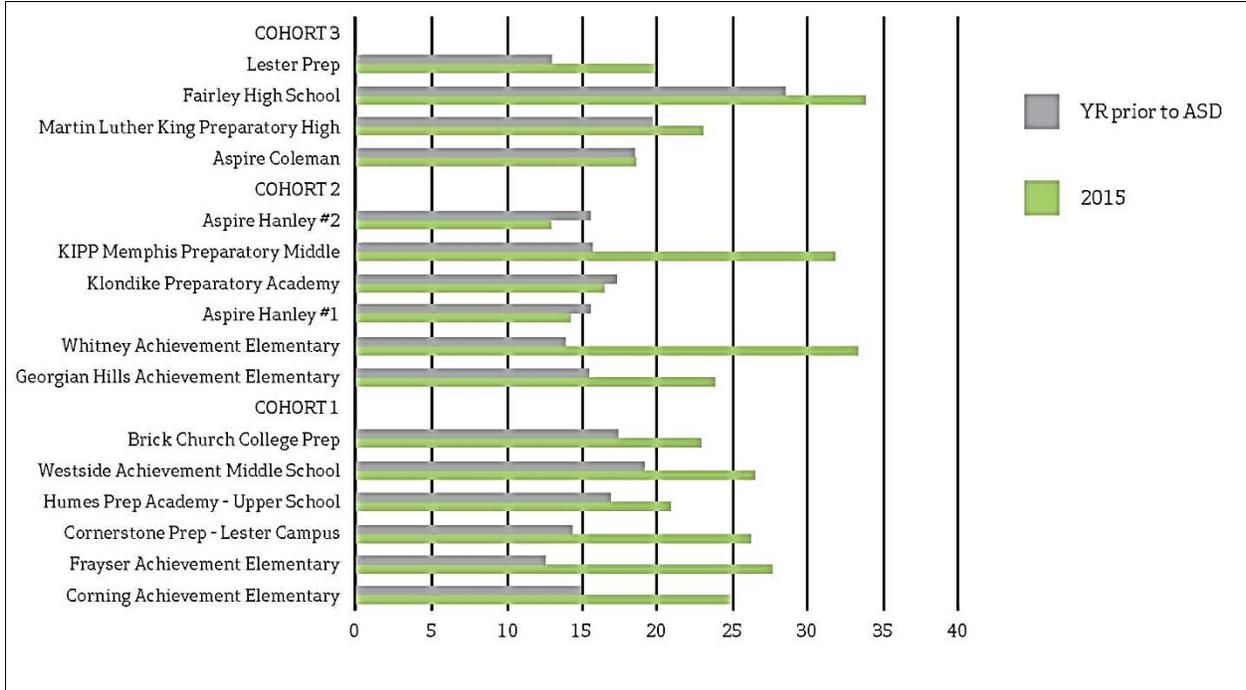
AUDIT CONCLUSIONS

Observation 1 – The Achievement School District's Mission Status

The exhibit below was provided by ASD and demonstrates the comparison of schools' proficiency before and after their transition to ASD's authority. This information is unaudited. ASD's mission is to catapult the bottom 5% of schools in Tennessee into the top 25% in the state by providing school improvement alternatives to schools in their care. The first group, or cohort, of schools transitioned into ASD's authority in school year 2012-2013.

ASD provided the exhibit below for cohorts 1, 2, and 3. The successful achievement of ASD's mission cannot be fully evaluated until the first cohort has completed the five-year minimum placement period.

Exhibit
Average Proficiency Pre-ASD Transformation vs. Current*
(Unaudited)



* Based on a one-year school success rate (an average of math, reading and language arts, and science proficiency).
 Source: ASD management.

Observation 2 – Although the Achievement School District is an organizational unit of the Tennessee Department of Education, the statute provides and the department chose to allow ASD to operate autonomously in all respects, thus preventing the department’s prompt recognition and reaction to ASD’s administrative actions

As described in the background, the Achievement School District (ASD) is uniquely organized as a state governmental entity that is permitted to operate similarly to a local government-run school district. From its inception in fiscal year 2011 and until October 2013, ASD’s financial staff tracked and reported its day-to-day operations and entered ASD’s financial transactions into Edison, the state’s accounting system. In October 2013, at the request of ASD management, the Tennessee Department of Education granted ASD the autonomy to move its financial operations from Edison to its own newly acquired accounting system so that ASD could operate more like a local education agency in all functional areas.

Our audit objectives relative to ASD over the years have strictly related to the department’s and ASD’s compliance with the federal grants that provided federal assistance for school improvements.

Our audit results as presented in the 2013, 2014, and 2015 Single Audit reports for Tennessee included findings concerning federal grant noncompliance and administrative actions that could ultimately impact ASD's ability to meet its mission under Tennessee state statute. When the Department of Education accepts federal grants and passes the funding to the local education agencies, including its own internal local education agency (ASD), the federal grantors and the department expect the agencies, including ASD, to follow federal and state requirements when spending federal and state funds. The federal grantors and state leadership also expect the department to ensure that ASD has complied with federal and state regulations by performing sufficient monitoring of ASD's activities at the state and local levels.

We first identified issues involving ASD's financial and federal program operations during the 2013 Single Audit, and in each of the Single Audit reports since 2013, we have reported deficiencies in ASD's internal controls and noncompliance with federal program requirements, resulting in approximately \$721,000 of federal questioned costs.

When auditors report control deficiencies, noncompliance, and questioned costs, the federal grantor is responsible for determining if any of the auditor's questioned costs will be disallowed grant costs, thus requiring the state to refund the disallowed costs to the federal grantor.

In addition, the federal grantors may choose to perform their own audits of grants provided to the states. On March 30, 2016, the U.S. Department of Education, Office of Inspector General, released an audit of Tennessee's Race to the Top grant, which included funds spent by ASD.⁵ This federal audit identified similar internal control deficiencies and areas of federal noncompliance with the Race to the Top grant at ASD.

During our current audit, we continued to find similar issues relating to fiscal deficiencies and noncompliance, but we have also identified new areas of deficiencies related to human resources and purchasing cards. We found, and describe in greater detail in the appropriate sections of this report, that ASD did not have sufficient processes, procedures, and specific critical controls in place to ensure compliance with federal and state requirements, including proper administration of federal and state funds. In some instances, we found that ASD had actually created or adopted procedures but had failed to follow them.

As a result of our audit fieldwork for the most recent 2015 Single Audit, the Tennessee Department of Education's management team began to address our specific concerns relating to ASD's administration and expenditure of federal grants. The department's actions included initiating a review of ASD's internal operations, processes, and controls. Based on their own concerns, department management placed a hold on all of ASD's federal reimbursement requests. During our current audit fieldwork and based on ongoing discussions with department management, management actively assisted us to obtain supporting documentation from ASD. As a result of our joint effort to obtain documentation, the department recognized the need to take control of ASD's fiscal and federal processes. On April 28, 2016, department management informed us that they moved ASD's financial and federal program positions from Memphis to

⁵ <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a05o0004.pdf>.

Nashville and were in the process of hiring six new departmental employees, who will be responsible for managing ASD. These new positions include

- Fiscal Director,
- Fiscal Manager,
- Accountant,
- Account Tech,
- Federal Programs Director, and
- Federal Programs Manager.

These positions will report to the department's Director of Fiscal Strategy. In addition, department management moved all financial transaction processing back to Edison on July 1, 2016. Effective January 1, 2017, the department plans to transition ASD's payroll function back to Edison and under the responsibility of the Director of Fiscal Strategy.

We will audit these new processes and controls during the 2016 Single Audit.

HUMAN RESOURCES

Pursuant to Section 49-1-614(g)(1), *Tennessee Code Annotated*, "the employees hired to work in schools directly operated by the ASD may be deemed employees of the ASD and such employees shall be under the exclusive control of the ASD." The law also requires the Achievement School District (ASD) to develop written procedures for employment and management of personnel as well as the development of compensation and benefit plans, which are subject to the approval of the Commissioner of the Department of Education.

ASD employs a Human Resources (HR) Generalist to work specifically in the main office to support the personnel and payroll functions, and the Achievement Schools Team employs an HR Peoples' Champion who handles human resources for all employees who work at the five Achievement Schools. According to ASD management, ASD staff use ADP, a human capital management system, to record all time and attendance and payroll transactions.

The audit objectives relating to human resources and payroll function controls and processes were to determine if

- management implemented controls to ensure proper segregation of duties between the personnel and payroll processes;
- internal controls over personnel files and employee time and attendance were adequate;
- upon being hired, ASD's fiscal staff possessed the stated job qualifications for their positions;

- employee performance reviews were reasonable and completed in a timely manner;
- the awarding of employee bonuses and pay raises were approved and documented;
- management used an employee exiting process, including calculation of final pay;
- all employees were valid employees; and
- any employees who were terminated for fraud were reported to the Office of the Comptroller.

To meet our objectives, we interviewed ASD main office and Achievement Schools Team staff and conducted walk-through procedures to document processes and controls over personnel files, employee timekeeping, performance reviews, and payroll procedures. We reviewed the *Tennessee ASD Employee Handbook*, performance review instructions, and Employee Action Forms to gain an understanding of the processes and controls.

We selected a nonstatistical, haphazard sample of 9 of 45 main office employees and requested their personnel files, job descriptions, and performance reviews completed during the audit period.

We obtained a list of all ASD employees during our audit period and performed tests to determine if ghost employees existed. Additionally, for bonuses and salary raises paid from July 1, 2015, through June 7, 2016, we tested ASD's main office employees and the Achievement Schools Team employees separately. For the bonuses, we tested a population 53 employees who received bonuses, totaling \$66,100, and from a population of 285 Achievement Schools Team employees who received bonuses, totaling \$515,207, we tested a nonstatistical, random sample of 25 employees, totaling \$40,500.

To determine if pay raises were approved and documented, we tested all 25 main office employees who received pay raises for promotions and merit, totaling \$272,576, and we selected a nonstatistical, random sample of 25 employees who had received pay raises from a population of 141 Achievement Schools Team employees, totaling \$855,690. The sampled employees had received salary increases totaling \$132,176 for various reasons.

Finally, from a population of 74 employees who separated from ASD from July 1, 2015, through February 16, 2016, we tested a nonstatistical, random sample of 25 separated employees and reviewed their personnel files to determine if they were terminated due to fraud. In addition, we compared this sample of 25 separated employees to their payroll transactions to determine if they were only paid for their last day worked.

Based on our audit work, we found the following:

- ASD management has not ensured proper segregation of duties in the personnel and payroll processes (see finding 1).
- ASD management did not always maintain employee personnel files that contained basic, yet pertinent, documents indicating an employee's job status (see finding 1).

- ASD did not have adequate controls over time and attendance reporting (see finding 1).
- ASD management did not have a method to verify that fiscal employees met the position’s education requirements before hiring them (see finding 1).
- ASD management did not complete performance reviews as required (see finding 1).
- Although management appropriately approved bonuses and pay raises for Achievement Schools Team employees, management did not always maintain documentation approving main office employee bonuses and pay raises (see finding 1).
- Management did not implement an employee exiting process for employees separating employment. Without a proper exit process, ASD management
 - failed to complete Employee Action Forms, which are used to document personnel changes, including terminations;
 - overrode system control best practices and allowed a terminated employee to retain access to ASD’s system;
 - failed to take possession of a terminated employee’s laptop on the employee’s last day; and
 - improperly continued to pay salaries and benefits to terminated employees after their last day worked, resulting in salary overpayments totaling \$5,891 (see finding 1).
- All employees on ASD’s payroll were valid employees.
- There was no evidence that former ASD employees were terminated due to fraud.

Finding 1 – The Achievement School District’s management did not establish adequate controls over several key human resources and payroll processes

Condition, Criteria, and Cause

According to Section 49-1-614(g)(1), *Tennessee Code Annotated*, “The ASD shall develop written procedures, subject to the approval of the commissioner, for employment and management of personnel as well as the development of compensation and benefit plans.” During our audit, we found several instances where ASD did not establish processes over key human resources and payroll functions. Specifically, we found the following.

A. ASD management did not establish proper segregation of duties over human resources and payroll functions.

The Human Resources (HR) Generalist is not only responsible for creating and managing employees’ human resources files, but she also manages, approves, and audits payroll transactions. According to the HR Generalist, ASD originally employed at least three different positions responsible for personnel and payroll processes so that duties were appropriately

segregated; however, due to turnover, these duties were consolidated under a single staff member.

Principle 10.03 of the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), under "Segregation of Duties," states:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Failure to establish proper segregation of duties increases the risk that one employee could create fictitious employees and process payroll without management's knowledge.

B. ASD management did not always maintain personnel files with critical employment data.

In our attempt to audit ASD's human resources process, we reviewed ASD employee personnel files and noted that the personnel files for former ASD employees did not contain the appropriate documentation typically found in personnel files (resumes, college transcripts, etc.). Upon further review, we found that ASD management also did not have any personnel policies or procedures describing the types of documentation that should be maintained in personnel files. Specifically, we intended to review personnel files for nine main office employees. At the time of our testwork, management was not aware that one employee's personnel file was missing until we told them. We found that the contents of the personnel files for the eight main office employees we selected for testwork were inconsistent.

Missing documentation consisted of the following:

- resumes;
- a signed offer letter of employment;
- an ASD Disclosure and Authorization Form, which the employee uses to grant ASD management permission to run a background check;
- an Identification Badge Form;
- a Receipt and Authorization of the *Tennessee ASD Employee Handbook*;
- a Tennessee Consolidated Retirement System Membership form;
- a Basic Life Insurance Benefit Beneficiary Designation;
- a Tennessee Bureau of Investigation Background Check; and
- a Payroll Information Form, which contains employees' basic identifying information (including name, address, and phone number, etc.).

According to the article published by the Society for Human Resources Management,⁶ “Personnel Files: What should, and should not, be included in the personnel file?” which describes best practices; a personnel file should contain a basic list of documents:

- recruiting and screening documents such as applications, resumes, and educational transcripts;
- job descriptions;
- records relating to job offers, promotions, demotions, transfers, layoffs, and rates of pay and other forms of compensation;
- education and training records;
- pay and compensation information;
- records relating to other employment practices (including policy acknowledgments and agreements);
- letters of recognition;
- warnings, counseling, and disciplinary notices;
- performance evaluations and goal-setting records; and
- termination records.

C. ASD management did not implement a process to document employees’ time and attendance.

Based on our audit testwork at ASD’s main office in Memphis, we observed that employees did not work regular schedules (i.e., 8 a.m. to 5 p.m., Monday through Friday). As a result, we inquired with management concerning time and attendance policies for the main office employees. According to ASD’s Controller⁷ at the time of our fieldwork, the majority of employees receive a salary; because they receive a set amount every payroll period, these employees are not required to maintain timesheets or otherwise report their hours worked. We also found that management did not have written policies and procedures concerning telework options for employees so that management and direct supervisors could ensure employees were accountable for their time when they worked from home or another location. We also found that the employees who were allowed to telework did not maintain a record of work completed.

According to the *Tennessee ASD Employee Handbook*, an employee works full-time if they are “regularly scheduled to work 30 hours or more per week.” It is unclear how management ensures that employees have worked the required minimum hours each week.

ASD management apparently did not see the need to develop clear time and attendance policies and, according to the Chief Operating Officer and General Counsel, employees have

⁶ Society for Human Resources Management, published on March 17, 2015.

⁷ As a result of the department transferring ASD’s financial and federal program positions to Nashville, staff of the financial and federal program team, including ASD’s controller, were terminated effective June 30, 2016.

regular interactions with their direct supervisors to ensure that they are making progress on their work.

D. ASD did not have a process to verify education credentials before hiring.

Based on our discussions with ASD staff, ASD management did not implement a process for verifying an applicant's education credentials. During our examination of the eight personnel files noted in item B above, we obtained job descriptions for each position and found that each job description listed an education requirement. Because the personnel files did not contain school transcripts, it is unclear how ASD determined that employees met the minimum required education credentials as listed in their job descriptions. We asked the HR Generalist how management verified education credentials, and she stated that management does not verify education credentials.

E. ASD management did not complete employee performance reviews as required.

Current Process as Described by Management

According to management, ASD supervisors use the ADP system to evaluate their employees using two types of performance reviews every quarter: a competency-based review and a goal-based review. Both performance reviews, according to management, serve as the basis for awarding bonuses and pay raises. The competencies are based on the employee's job description, and the goals are established by the employer and the supervisor. According to management's description of the process, the employee's supervisor is responsible for completing the reviews since they would possess the most knowledge of the employees' job performance. The supervisor completes the performance review in ADP, where the employee then reviews it. According to the HR Generalist, the performance reviews are due within one month following the end of the quarter.

We intended to examine the quarterly competency-based and quarterly goal-based performance reviews for eight current and one former employee, totaling 50 performance reviews in all; however, management could not locate 20 performance reviews we selected for testwork.

Competency-Based Performance Reviews

To determine if ASD management performed the competency-based performance reviews, we selected our sample and asked management to provide us with the performance reviews. Management, however, could not provide 5 competency-based performance reviews; for the remaining 20 performance reviews, we found the following overlapping issues:

- for 8 performance reviews, we could not determine the performance review period and thus could not evaluate whether management adhered to its internal timeline for completion of the quarterly performance reviews;
- 10 performance reviews were completed later than the date required, with days late ranging from 2 to 61 days;

- instead of the employee electronically signing his or her performance review, the HR Generalist electronically signed 9 performance reviews in the ADP system; thus, we could not confirm that the employee had actually seen the review; and
- for 7 performance reviews, the HR Generalist prepared the reviews instead of the supervisors.

Goal-Based Performance Reviews

Similar to our testwork for competency-based reviews, we also requested that management provide us with a sample of goal-based reviews. Of the 25 goal-based performance reviews requested, management could not provide 15; as a result, we only tested 10 goal-based performance reviews and found that

- for 7 performance reviews, supervisors had not completed the review by the required date, with days late ranging from 2 to 61 days;
- the HR Generalist electronically signed 3 performance reviews instead of the employees; thus, we could not determine that the employee saw the review;
- the HR Generalist completed one performance review instead of the employee's supervisor, who likely had the most direct knowledge of the employee's performance;
- the ASD supervisor did not ensure that 3 goal-based performance reviews even included the employees' goals; and
- for 8 performance reviews, the ASD supervisor did not clearly establish the method used to assess the percentage of goals completed; thus, we could not determine that management's goal-based review process achieved its purpose.

Principle 4.04 of the Green Book states that,

Personnel need to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control. Holding individuals accountable to established policies by evaluating personnel's competence is integral to attracting, developing, and retaining individuals. Management evaluates competence of personnel across the entity in relation to established policies. Management acts as necessary to address any deviations from the established policies. The oversight body evaluates the competence of management as well as the competence overall of entity personnel.

According to ASD's Chief Operating Officer and General Counsel, for those reviews that were not performed, ASD management stated that they did not complete the performance reviews because of problems with the ADP system and did not seek alternative methods to complete them.

F. Management could not provide documentation of approvals of bonuses and pay raises given to main office employees.

We tested all bonuses and salary raises given to ASD main office staff for the period of July 1, 2015, through June 7, 2016. Specifically, we noted the following deficiencies:

- ASD management gave 53 bonuses, totaling \$66,100. For 5 of 53 bonuses given (9%), totaling \$6,400, management could not provide documentation supporting that they approved the bonuses.
- For 4 of 25 salary raises (16%), totaling \$13,089, management could not provide documentation that they approved the raises.

Additionally, because of the lack of documentation, we could not determine how management or the HR Generalist determined the amount of bonuses and pay raises, and we could not verify that ASD management approved bonuses and salary raises initiated by the HR Generalist. Based on discussion with the HR Generalist, bonuses and salary raises were documented using emails. However, she failed to archive some of these emails, and the emails were deleted in accordance with ASD's email retention policy.

Principle 10.03 of the Green Book states that, "management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system."

This principle goes on to list examples of common categories of control activities, one being "[p]roper execution of transactions." This control activity states that, "Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transaction to exchange, transfer, use, or commit resources are initiated or entered into."

G. ASD did not have an employee exiting process.

A sufficient employee exiting process should include documenting employee separation details, revoking employees' system access on the last working day, recovering ASD property, and finalizing employees' final payroll checks. Based on our discussions with management and testwork performed on a nonstatistical, random sample of 25 of 74 separated ASD employees, we found that management did not implement a sufficient employee exit process.

1. Management did not create Employee Action Forms to document the facts surrounding employees' separations.

ASD management responsible for hiring and terminating staff described to us that they use Employee Action Forms to document new employee information, including personal information, salary information, property assigned to the employee, and system access needs.

Management also stated that the Employee Action Form is used to document the details of an employee's separation, including whether the employee resigned or involuntarily ended

employment, the latter of which would require further explanation by the terminating manager. We found, however, that management did not create an Employee Action Form for 7 separated employees (28%), and as a result, did not explain why the employees separated.

According to the *Tennessee ASD Employee Handbook*, “The ASD maintains a record of each employee’s employment history including such information as education, experience, work performance, and professional development.”

Employment history includes a record of when and why an employee was terminated. When keeping records of employment history, the agency should keep as much detailed information on the employee’s termination as possible. According to the HR Peoples’ Champion, these employees were terminated before she was hired, and she could not locate the missing Employee Action Forms in any of the files that were transferred to her from the previous employee in her position. According to the Chief Operating Officer, there was not a specific policy on Employee Action Forms at the time that these forms were created, which could have caused them to go unsigned by all members of management, or not be created at all.

2. *Management overrode internal controls by allowing the former Chief Financial Officer’s (CFO) to have system access for 27 days after her last day worked and did not recover her ASD-issued laptop until January 11, 2016, 34 days after her last official work day.*

Management instructed the Information Technology (IT) System Administrator to allow the former CFO to keep certain system access after the employee’s termination date to “tie up loose ends.” Specifically, the former CFO retained access to ADP; ExpenseWatch, ASD’s travel claim system; and Office 365. The employee’s last day was December 18, 2015. According to the IT System Administrator, the employee’s access was disabled on January 4, 2016. Management could not provide us with documentation to determine if the former CFO’s access remained active after her last day or if her system access was disabled then reinstated. Additionally, management had trouble recovering the laptop computer after her last day. Management recovered the laptop on January 11, 2016. When asked, ASD management could not explain the circumstances surrounding the CFO’s access and the laptop.

Principle 10.13 of the Green Book states that “management override circumvents existing control activities and increases fraud risk.”

3. *ASD management paid salaries or benefits to former employees after employees were fully compensated through their last day worked.*

Management did not have internal controls in place to prevent salary overpayments to terminating employees, and the Chief Operating Officer could not explain why the wages and benefits were paid.

Out of 25 separated employees, 3 employees (12%) received either wages or benefits, totaling \$5,891, after their employment with ASD ended. For one former employee, ASD paid his benefits; another former employee, who worked part-time, received \$180 in compensation. One former employee received a full paycheck and ASD was unable to recover the overpayment.

At the time of our fieldwork, ASD management had not pursued legal action to recover the overpayment.

Without a sufficient exiting process for separating employees, which includes controls over final employee pay, management may again make overpayments they are unable to recover.

Effect

Without adequate human resources and payroll processes; controls; and policies and procedures, ASD management cannot ensure that

- their employment records and history are sufficient;
- employees work the required hours and receive accurate pay;
- employees meet required education requirements for their positions;
- employees' performance is properly and timely evaluated;
- bonuses and salary increases are properly approved and documented;
- management maintains the internally required forms to document employees' status changes; and
- system access is revoked and assigned property is recovered on the employee's last working day.

In addition, according to the Office of the Tennessee Secretary of State, Division of Records Management's *Records Management Best Practices and Procedures Manual*,

Public officials are legally responsible for creating and maintaining records that document the transactions of government business. These records provide evidence of the operations of government and accountability to its citizens. Public officials must maintain this information according to established Records Disposition Authorizations (RDA).

Relative to human resources employee information documents, *Statewide RDA #03* states that all "documents pertaining to office personnel locator information, supervisory/employee information, and separated employee records" must be retained for ten years.

Management's decision to override key controls and allow a former employee to maintain system access and to retain custody of ASD-issued property after her separation from ASD unnecessarily exposed the organization to potential data loss or misappropriation.

Recommendation

The Department of Education management and the ASD Superintendent should ensure that the human resources and payroll functions are properly segregated or that they implement appropriate compensating controls in functional areas that cannot be segregated. The

Superintendent should also develop formal policies and procedures to ensure that all pertinent documentation is maintained in personnel files. Additionally, ASD should review its existing personnel files to ensure that they are complete and accurate.

The Superintendent should develop and implement effective policies and procedures over employees' time and attendance reporting—including procedures for employees' regular work schedules, time reporting, and teleworking—to ensure that employees work their required hours.

The Superintendent should develop and implement policies and procedures to verify applicants' education credentials prior to hiring and to ensure that employee performance evaluations are reasonable, contain measurable data, and are completed quarterly as required by policy.

The Superintendent should also develop and implement procedures that ensure that approvals for bonuses and salary raises are documented and maintained. Human resources management should ensure that all employee actions are appropriately documented and maintained. Finally, human resources management should also ensure that all system access is revoked, all equipment obtained, and payroll ended when an employee separates from ASD.

The Department of Education and ASD management should minimize risks by ensuring adequate controls are in place and should avoid any management override of controls that exposes the organization to increased risks of fraud, waste, and abuse.

Management's Comment

We concur. The Achievement School District (ASD) will undergo a comprehensive review of its current human resources policies and procedures, and will implement additional controls and segregating duties as required. This will include reviewing the segregation between the human resources and the payroll functions, the policies and procedures around time and attendance, the contents and requirements for employee personnel files, documenting approvals for bonuses and raises, documenting employee actions, and limiting any override that exposes the organization to an increased risk of fraud, waste, or abuse.

A. ASD management did not establish proper segregation of duties over human resources and payroll functions.

The ASD will establish segregation of duties as all employees are moved into Edison.

B. ASD management did not always maintain personnel files with critical employment data.

The ASD has developed a policy outlining the information to be included in each employee's file (whether paper or electronic) and the ASD HR staff began building new employee files following this policy in late FY2016.

C. ASD management did not implement a process to document employees' time and attendance.

As the ASD moves into Edison for payroll purposes, ASD staff will have to formally record time and attendance in the Edison system.

D. ASD did not have a process to verify education credentials before hiring.

The education credentials of Achievement Schools' teachers are verified through the Department's Office of Teacher Licensing when they apply for and have their teaching licenses renewed. As the ASD moves into Edison for payroll purposes, the ASD will require each non-teaching employee to provide verification of degrees awarded.

E. ASD management did not complete employee performance reviews as required.

The ASD performance review policy will be revised to ensure that all employees have completed and documented performance reviews.

F. Management could not provide documentation of approvals of bonuses and pay raises given to main office employees.

As the ASD moves into Edison for payroll purposes, documentation of changes in pay and approval will be recorded in Edison.

G. ASD did not have an employee exiting process.

The ASD will provide training to all managers on each stage of the employee lifecycle, including recruiting, hiring, and separation, to ensure that all managers know the steps that have to be taken, by when.

FISCAL OPERATIONS FOR EXPENDITURES, PURCHASING CARDS, AND FISCAL MONITORING

Using federal, state,⁸ and private funds, the Achievement School District (ASD) spent approximately \$76 million in fiscal year 2015 and \$60 million from July 1, 2015, through February 29, 2016,⁹ to meet its mission to catapult the bottom 5% of schools in Tennessee straight to the top 25% in the state. ASD's financial and federal programs team is responsible for processing and paying payroll and operational expenses at ASD's main office and at the five

⁸ See page 6 for a description of the Department of Education's distribution of local education funding from ASD schools' original local education agency to ASD.

⁹ Obtained from ASD's income statement for the period July 1, 2015, through February 29, 2016; provided by Department of Education management.

Achievement Schools.¹⁰ For ASD's charter management organizations (CMOs), the CMOs are contractually required to process and pay the payroll and operational expenses at the schools they operate; the CMOs, in turn, submit reimbursement requests to ASD to recover these costs from the state.

From ASD's inception in fiscal year 2011 through September 30, 2013, ASD fiscal staff processed all financial transactions in Edison, the state's accounting system. ASD management, with approval from the Department of Education, procured its own accounting system, NetSuite, and no longer use Edison, effective October 1, 2014. ASD also procured a web-based human capital management system, ADP, to meet its human resources and payroll needs. ASD began using ADP during fiscal year 2016. For travel claims, employees enter travel-related expenses and supporting documentation into a system called ExpenseWatch. Both ADP and ExpenseWatch interface with NetSuite so that ASD's financial and federal programs team can issue payroll checks and travel claim reimbursements. In addition, ASD management allows staff to use purchasing cards to facilitate purchases on behalf of the main office and the related schools.

Included in our 2015 State of Tennessee *Single Audit Report*,¹¹ we reported multiple issues that affected the overall control environment of ASD, as well as its compliance with federal and state law. These issues included the following:

- ASD's noncompliance with federal requirements of the School Improvement Grants¹² and Race to the Top programs¹³ resulted in \$405,892 and \$88,139 of federal questioned costs¹⁴ for these programs, respectively.
- CMOs failed to submit supporting documents, such as invoices and time and effort documentation to support payroll distributions, to ASD as support for their reimbursement requests.^{12, 13}
- ASD employees backdated time and effort documentation, which suggested that the documentation was created at the time we requested the documentation but dated to match the transaction reporting period. ASD management acknowledged that they did not pay sufficient attention to the dates.¹³
- ASD employees' salaries were allocated to the wrong federal and/or state funding sources.^{12, 13}

¹⁰ As stated in the introduction on page 6, because the Achievement Schools are run directly by ASD, these schools do not submit reimbursement requests to ASD like the charter management organizations. The Achievement Schools enter their expenditures directly into NetSuite, and the Achievement Schools Team's Chief Financial Officer is responsible for compiling the supporting documentation for the direct-run schools' expenditures so that the supporting documentation can be submitted with the reimbursement requests to the department.

¹¹ http://www.comptroller.tn.gov/repository/SA/2015_TN_Single_Audit.pdf.

¹² 2015 State of Tennessee *Single Audit Report*, Finding 2015-010, page 57.

¹³ 2015 State of Tennessee *Single Audit Report*, Finding 2015-011, page 67.

¹⁴ According to the federal Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," auditors will question a cost because of an audit finding that resulted from a violation, or possible violation, of law, regulation, contract, grant, or other document governing the use of federal funds; where the costs are not supported by adequate documentation; or the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

- The ASD Federal Programs Fiscal Manager did not adequately review supporting documentation from CMOs before approving reimbursement requests and forwarding the requests to the department. The Fiscal Manager had to request basic information from the CMOs after we asked for the detailed documentation; it was unclear at the time of our audit how the Fiscal Manager was able to determine whether the CMOs had complied with federal program requirements because the CMOs' supporting documentation was incomplete. Ultimately, the Department of Education reimbursed the CMOs without sufficient documentation and then inappropriately passed these unsupported costs on to the federal grantors.¹²

Based on the results of the 2015 Single Audit, we developed the following audit objectives for our audit of ASD's fiscal operations and our review of related internal controls over its operational expenditures, including those paid with purchasing cards. Specifically, our objectives were to determine if

- ASD had internal controls over expenditures and payment card purchases;
- ASD management and staff established and followed financial policies and procedures related to expenditures and procurement;
- ASD employees used their purchasing cards in accordance with ASD financial policies and procedures and the P-Card [purchasing card] Usage Policy;
- ASD district-level staff adequately monitored the fiscal operations of the Achievement Schools Team (and the direct-run schools) and the CMOs to ensure federal and state compliance; and
- ASD management had ensured that key system controls over NetSuite and ADP were in place.

To gain an understanding of ASD's expenditure and purchasing card controls, we interviewed key CMO staff; interviewed key staff members at the Tennessee Department of Education and ASD; inspected internal control guidance in the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book); reviewed ASD's *Financial Policies and Procedures Manual*, a sample CMO contract, the *Tennessee ASD Employee Handbook*, ASD's P-Card [purchasing card] Usage Policy, and the state's payment card policies; and performed walk-throughs of ASD's processes for approving payroll, travel claims, and other expenditures.

From a population of 49,910 expenditures, including payroll, totaling \$85,480,511,¹⁵ for the period July 1, 2015, to February 23, 2016, we tested a nonstatistical, random sample of 60 expenditures and a selected 16 additional expenditure items that appeared unusual, totaling \$442,106, to test internal controls over the expenditure process and to determine if payments were made in accordance with ASD's policies and procedures.

¹⁵ Obtained from the NetSuite general ledger data extracted on February 23, 2016; provided by Department of Education management.

We also tested a nonstatistical, random sample of 25 travel claims and a selected 14 additional travel claims that seemed unusual, for a combined total of \$15,798, from a population of 809 claims, totaling \$94,834, to determine if ASD followed its travel policies and procedures.

From a population of 1,029 purchasing card transactions, totaling \$120,357, from July 1, 2015, through March 28, 2016, we tested a nonstatistical, random sample of 59 and selected 8 additional purchasing card transactions that appeared unusual, totaling \$18,577 for both samples, and requested credit card statements, invoices, receipts, and purchasing card transaction logs to ensure purchasing card transactions were made in accordance with ASD's policies and procedures.

To determine if ASD's main office staff conducted fiscal monitoring of the Achievement Schools and the CMOs, we interviewed pertinent ASD and Tennessee Department of Education staff. In addition, we analyzed ASD's fiscal review process of CMOs and performed a limited review of ASD's programmatic monitoring for CMOs.

Finally, we examined ASD's system controls over NetSuite and ADP to ensure ASD had developed procedures recommended by industry best practices.

Based on the results of our testwork, we

- found several instances where ASD management had not implemented effective internal controls over expenditures and purchasing card purchases and did not comply with ASD's financial policies and procedures and/or P-Card Usage Policy (see finding 2);
- determined that ASD staff did not perform adequate fiscal monitoring (see finding 3); and
- determined that internal controls over NetSuite and ADP were not effective and did not follow industry best practices (see finding 4).

Finding 2 – The Achievement School District's management failed to implement adequate internal controls over its expenditures, travel claims, and purchasing card purchases

Condition, Criteria, Cause, and Effect

A. Inadequate segregation of duties and processes

Management of the Achievement School District (ASD) did not establish proper segregation of duties for its expenditures and purchasing card processes. Principle 10.03 of the Green Book, under "Segregation of Duties," states:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them,

reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Expenditure Process

Based on the audit discussions and review of expenditure transactions, we found that the ASD Superintendent initiated or allowed staff to initiate purchase orders and approve the same purchase orders for payment without any compensating controls in place to ensure the transparency and appropriateness of the transactions. Specifically, the Superintendent initiated and approved a purchase order for membership dues to the Tennessee Organization of School Superintendents. In addition, we found that for one expenditure tested and two travel claims tested, the employees initiating the transactions also approved the transactions for payment.

When we discussed the incompatible functions with ASD, the Chief Operating Officer informed us that the accounting system, NetSuite, is designed so that key staff are the designated approvers based on their authority. Given the design of the system, management should have incorporated compensating controls when the approver needs to initiate a purchase order or travel claim. By allowing employees to both initiate and approve expenditure transactions, management increases the risk that an employee may make an unauthorized purchase without management's knowledge, thereby increasing the risk of fraud, waste, and abuse.

Purchasing Cards Process

- Based on our walk-through of purchasing card procedures, ASD's former Controller was solely responsible for setting up purchasing card accounts; reviewing and calculating transaction amounts for direct-run school employees; and posting the total purchase amounts in NetSuite, ASD's accounting system, thereby increasing the risk that an employee can set up and use a purchasing card without management's knowledge. According to the Department of Education's Director of Financial Strategy, ASD staff were more concerned with getting the job done than with implementing adequate controls to ensure the procurement transactions were allowable and authorized.
- During our walk-throughs of the purchasing card procedures, we found that ASD financial management did not have an official purchasing card policy. Based on our discussions with the former Controller, she drafted the policy that was in place during our fieldwork; however, the policy listed planned controls rather than implemented controls. In addition, she also stated that she did not provide a copy of the policy to current cardholders; she planned to provide the policy to future cardholders.

Principle 10.04 of the Green Book, states,

Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that

personnel can implement the control activities for their assigned responsibilities.

- To use a purchasing card, employees must sign a Purchasing Card Usage Agreement, which describes the terms, conditions, and responsibilities of using a card. For the 9 employees with purchasing cards during the audit period, one employee did not date the agreement, and 6 employees signed their agreements after they received their purchasing cards. In addition, the Controller did not sign or date agreements indicating her approval for these employees to have a card. According to ASD's former Controller, cardholders did not receive training until May 12, 2016. Because ASD cardholders did not receive ASD's P-Card Usage Policy, we used the state's Central Procurement Office Statewide Purchasing Card Policy and Procedures as best practices.

Section 5.7.1 of the Central Procurement Office Statewide Purchasing Card Policy and Procedures, states that the cardholder must sign the cardholder agreement as a condition for obtaining a purchasing card. The policy also states that cardholder training is critical to ensure that the cardholder understands the program procedures. Once training is complete, the cardholder signs a cardholder agreement.

B. Audit testwork results

We tested samples of 76 expenditure transactions, 39 travel claims, and 67 purchasing card purchases to determine if ASD's management implemented adequate internal controls over each area. Based on testwork performed, we found the following internal control deficiencies.

Expenditure Transaction Testwork Details

Based on the results of our sample testwork, we found that for 19 of 67 expenditure transactions tested (28%), ASD management did not implement effective controls to process expenditures. Specifically, we found that

- ASD management did not properly approve nine transactions, totaling \$83,363 (see Appendix 3 on page 39);
- ASD management spent funds on items that appeared unreasonable or excessive, such as expensive airport transactions and events honoring employees (see Appendix 3 on page 39);
- ASD financial staff coded expenditure transactions to the wrong accounts (see Appendix 3 on page 42);
- ASD financial staff initiated payment for three financial transactions even though the supporting documentation was not mathematically accurate (see Appendix 3 on page 42); and
- management procured the services of a coach and obtained a contract; however, based on our review of the invoice for services, the service dates on the invoice did

not match the contract and management's review did not resolve the discrepancies before the invoice was paid (see Appendix 3 on page 43).

Travel Claims Testwork Details

For 17 of 39 travel claims tested (44%), we found that ASD management did not implement effective controls over travel claims. Specifically, we found that

- management did not properly approve 7 travel claims, totaling \$2,460 (see Appendix 3 on page 39);
- an ASD employee submitted 6 travel claims in the ExpenseWatch system from 5 to 189 days late, and without an attached memo signed by the supervisor (see Appendix 3 on page 41);
- an ASD employee purchased and claimed a meal for a friend who is not an ASD employee (see Appendix 3 on page 41);
- ASD management reimbursed another employee for the wrong amount (see Appendix 3 on page 42);
- ASD management did not have any travel policies or procedures addressing an employee's official workstation (see Appendix 3 on page 42); and
- financial management charged two travel claims to the wrong accounts (see Appendix 3 on page 42).

Failure to implement adequate internal controls over expenditures and travel claims increases the risk of fraud, waste, and errors in ASD's financial reporting that could go undetected.

Purchasing Cards Testwork Details

Based on our testwork on 67 of 67 purchasing card purchases tested (100%), we found additional, yet overlapping, internal control deficiencies, specifically that

- management could not provide itemized receipts (see Appendix 3 on page 43);
- cardholders did not obtain advanced approval from management to make purchases, as required by ASD policy (see Appendix 3 on page 44);
- management could not provide us with transaction logs containing purchases or the related receipts (see Appendix 3 on page 44);
- cardholders charged hotel stays at rates that exceeded the maximum reimbursable rate required by ASD policy, resulting in an overpayment of \$130 (see Appendix 3 on page 44), and cardholders charged lodging for one night rather than following ASD's travel reimbursement process (see Appendix 3 on page 44);
- cardholders paid state sales tax (see Appendix 3 on page 44);

- management either did not indicate their review of cardholder transaction logs by signing the logs, or they signed the logs several months after the purchases were made (see Appendix 3 on page 45); and
- ASD staff failed to reconcile transaction logs to the credit card statements before ASD paid the credit card bill (see Appendix 3 on page 45).

For these deficiencies, the department's Director of Financial Strategy again stated that ASD staff were more concerned with getting the job done than controls; however, ASD management will begin using the state's payment card program rather than maintaining their own.

Failure to review and approve purchasing card purchases and related receipts, transaction logs, and credit card statements increases the risk that fraudulent or erroneous purchases could occur without management's knowledge.

Recommendation

As a result of our audit and discussions with the managements of the Department of Education and ASD, the department made the decision on July 1, 2016, to assume control of ASD's financial function by moving its accounting processes back to Edison, the state's accounting system; moving the financial positions to Nashville; and hiring a new finance team who will report to the Director of Fiscal Strategy. Any ASD expenditures and travel claims will be subject to established internal controls within Edison. The department has also decided to move ASD under the state's payment card program. Finally, the department plans to transition the payroll function from the ADP system to Edison on January 1, 2017.

The department's Director of Fiscal Strategy should continue to identify and assess risks relating to ASD's financial operations and implement appropriate processes and internal controls to mitigate these risks.

Management's Comment

We concur. As indicated in the recommendation, the department and the ASD have already taken substantive steps toward implementing more robust internal controls and procedures, beginning the transition back to the state's primary accounting system, and hiring a new finance team. Additional reviews of processes and procedures are ongoing, and any risks identified will be handled through the implementation of additional compensating internal controls.

The department has taken dramatic action to improve all of the finance and federal program functions in the ASD. This includes creation of a new organizational structure with new job descriptions, new leadership, and hiring of all new staff (planned in March and April 2016, implemented in July 2016), and an ongoing complete review and correction where necessary of the FY16 general ledger and all federal program reimbursement requests.

Finding 3 – The Achievement School District’s fiscal management did not perform sufficient fiscal monitoring of its direct-run schools and charter management organizations

Condition

The Department of Education conducts district-level federal grant fiscal and programmatic monitoring of local education agencies, including ASD, to ensure that the agencies use federal education funds in accordance with federal regulations. Because ASD is a recipient of federal education funding, it is also required to comply with federal regulations. Considering the problems identified in previous Single Audits, we inquired with ASD management to determine if ASD management conducted similar fiscal monitoring at the Achievement Schools and charter management organizations (CMOs).

Based on our inquiries, ASD’s main office staff did not conduct sufficient fiscal monitoring of its Achievement Schools Team, which is responsible for direct-run schools, and CMOs. We found that ASD fiscal management only obtained the CMOs’ fiscal data to determine if the CMOs achieved the desired levels of operating income, current ratio, and the days’ cash on-hand ratio. According to ASD’s Budget Manager, ASD had no formal policy to address issues in this analysis and had no policies and procedures for recourse if CMOs did not meet the desired levels. ASD’s General Counsel and Chief Operating Officer stated that monitors and auditors, rather than ASD staff, have always identified problems in ASD’s fiscal monitoring.

Criteria

According to ASD’s *Financial Policies and Procedures Manual*, some of the objectives of ASD’s finance and accounting function include ensuring compliance with all applicable federal, state, local, and private funds and regulations.

In order to meet these objectives, ASD should maintain proper internal controls, including regular monitoring of its Achievement Schools and CMOs. Management should take a proactive approach to monitoring and should not rely on monitors and auditors to identify deficiencies. The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for federal entities and offers best practice guidance for non-federal entities. Principle 16.01 of the Green Book states, “Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.” Principle 16.04 states, “management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity’s operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.”

Cause

According to ASD's General Counsel and Chief Operating Officer, ASD's staff did not understand the need for risk-based fiscal monitoring, and federal programs staff missed trainings where they would have learned about these requirements. In addition, the General Counsel and Chief Operating Officer stated that ASD staff were overwhelmed with basic implementations, such as reimbursement processing; closing ASD's books, and auditing, and would not likely have had time to develop and implement protocols.

Effect

When it fails to monitor the fiscal operations of its schools and CMOs, ASD increases its risk of not detecting weaknesses in financial position and jeopardizes the effectiveness of its management and programs. Lack of fiscal monitoring increases the risk that unallowable costs or other improper transactions will go undetected.

Recommendation

The ASD Superintendent should ensure staff conduct effective fiscal monitoring of ASD's direct-run schools and charter management organizations. This monitoring should be risk-based and should include an evaluation of federal program requirements. When developing the monitoring process, ASD staff should seek assistance from the Department of Education.

Management's Comment

We concur. Moving forward, the ASD will be developing a new risk-based monitoring instrument with the assistance of the department and using it to conduct monitoring of the schools within the ASD. The new monitoring process will include an evaluation of federal and state program requirements, as well as additional training for all relevant stakeholders.

Finding 4 – The Achievement School District did not provide adequate internal controls in one specific area

The Achievement School District did not design and monitor internal controls in one specific area. Ineffective implementation of internal controls increases the risk of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the Department of Education with detailed information regarding the specific condition we identified, as well as the related criterion, cause, and our specific recommendations for improvement.

Recommendation

The Achievement School District's Superintendent should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls in this area. The Superintendent should implement effective controls to ensure compliance with

applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. We provided the Comptroller's Office with a detailed response.

PRIORITY SCHOOL PLACEMENT PROCESS

Section 49-1-614, *Tennessee Code Annotated*, permits the Achievement School District (ASD) to either directly run priority schools or contract with individuals, government entities, or nonprofit entities to manage the day-to-day operations of priority schools placed under the authority of ASD. ASD currently runs five Achievement Schools and contracts with charter management organizations (CMOs) to operate the remaining schools (see the list of CMOs and their schools in the Appendix 2 on page 38).

Beginning in fall 2011 through spring 2013, ASD contracted with the National Association of Charter School Authorizers (the association) for assistance in the selection and contract processes to acquire CMOs. The association establishes the standards by which authorizers, like ASD, determine which entities, like CMOs, are capable of starting a new school. The association also sets the expectations of overseeing the schools' performance and ultimately decides if the schools should continue to operate. During the association's contract period, the association provided established principles and standards to ensure school authorizers, like ASD, created and upheld high expectations when recruiting CMOs. Effective spring 2014, ASD assumed full responsibility for contracting with the CMOs.

Our objectives were to determine whether

- ASD established a reasonable process to select and contract with CMOs; and
- ASD had a reasonable process to match CMOs with priority schools to achieve the best outcomes and improved student performance.

To meet our objectives, we reviewed state statutes governing the creation of ASD; its authority to authorize charter schools within its jurisdiction; and the state's responsibilities to establish and assess measurable achievement goals for Tennessee's public schools. In addition, we interviewed pertinent ASD staff to gain an understanding of the processes ASD uses to match CMOs with priority schools that are available for takeover, and we analyzed the following documents:

- the 2015 Tennessee Department of Education Priority School Intervention Listing;
- the National Association of Charter School Authorizers' principles and standards;
- ASD's charter management organization requests for proposal (RFP), charter applications, and RFP evaluation forms/charter application scoring rubrics;

- ASD’s School Performance Framework;¹⁶ and
- ASD’s Application for School Transformation Rubric.

ASD’s Charter Management Organization Contracting Process

The contract authorization process begins in the spring when ASD releases an RFP to recruit charter management organizations (CMOs) to take over priority schools to improve performance. New CMO applicants and existing CMOs who demonstrate a successful track record are invited to submit proposals and, if selected, submit to interviews.

Using ASD’s charter application scoring rubric, an external team of evaluators¹⁷ score the proposals and make recommendations to ASD management, who, in turn, make the final decision to authorize or deny a charter authorization proposal. According to the rubric, the proposals must address the CMO’s

- academic plan, concerning
 - CMO’s mission and vision for the school;
 - plan for transformational change within the communities it wants to serve, such as parent programs and after school activities;
 - curriculum and instruction design;
 - at-risk students and special populations; and
 - school culture, student discipline, and school calendar and schedule.
- operations plan, concerning
 - school leadership and staffing;
 - staff training and development;
 - student enrollment;
 - CMO governance; and
 - facility requirements; and
- financial plan, concerning
 - budgeting, accounting, purchasing, payroll, and audits.

Based on our observations, documentation review, and discussions with ASD management, ASD’s charter authorization process is consistent with best practices established by the National Association of Charter School Authorizers, and we verified that ASD’s process met all of the association’s standards at the time of our audit. For a description of the standards relating to the authorization process, see Appendix 4 on page 46.

¹⁶ ASD management uses the school performance framework, their accountability model, as a basis for evaluating its CMOs.

¹⁷ The evaluation team members come from across the nation and have expertise in academics, operations, and/or finance.

CMO-Priority School Matching Process

After ASD enters into a contract with a CMO to operate a priority school, ASD and the CMO work together to develop a plan to match the CMO with a priority school.

Specifically, ASD begins this process by narrowing the priority school list to a “conversion eligible list” by removing the priority schools that have elected to address low performance through another type of intervention allowed in statute. Secondly, ASD removes schools that received a TVAAS score of 4 or 5 in the prior-year evaluation.¹⁸ Finally, ASD and the CMO pare the conversion eligible list further to identify only those potential priority schools of interest to a CMO. The CMO then begins to engage the community leaders where the conversion-eligible schools are located. The communities often involve their Neighborhood Advisory Councils to facilitate interaction between a potential CMO and the parents and children who attend a priority school. These collaborative processes assist CMOs in determining the needs and wants of parents and communities in terms of educating the children.

Once the CMO determines the course of action it prefers, the CMO then submits an Application for School Transformation, developed to the specific needs of the takeover school, to the Neighborhood Advisory Council, which evaluates the application and arranges an interview with CMO management. The application is scored by each council member, based on a rubric that covers

- research about the CMO;
- student support needs and interests, including academic intervention and support as well as extracurricular activities;
- parent and community involvement;
- school operations; and
- a demonstration of community outreach.

After the evaluation, if the Neighborhood Advisory Council assigns the CMO an aggregate score greater than 50%, the council approves and the CMO and school match.

Achievement Schools

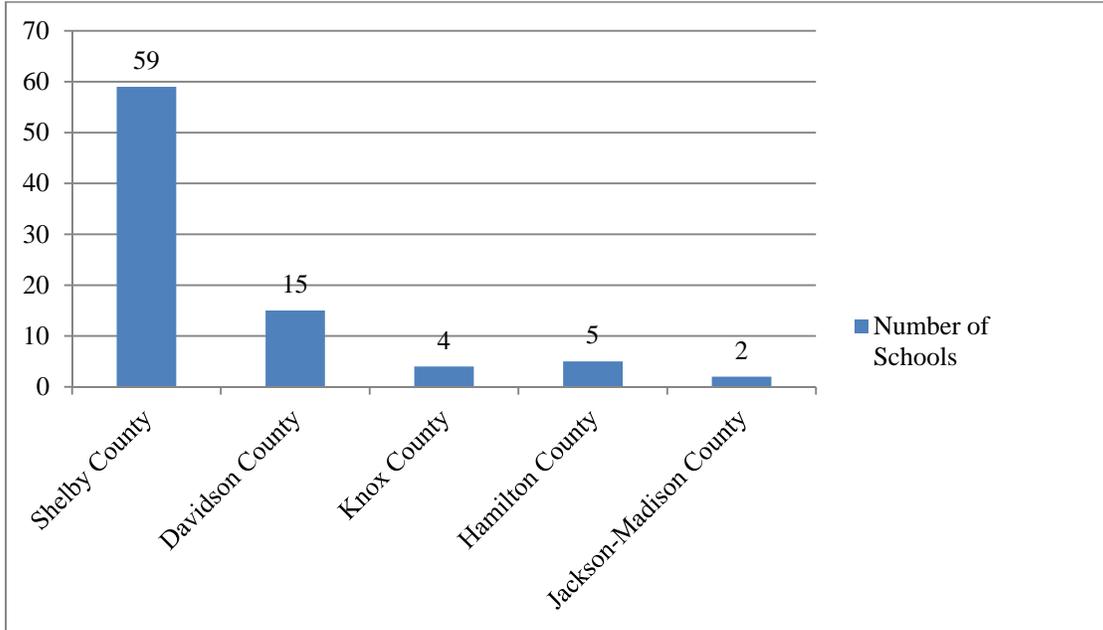
In addition, according to ASD management, the Achievement Schools are held to the same standards as the CMOs. If the Achievement Schools want to operate additional schools, they must meet the same minimum performance requirements and follow the same school matching process as the CMOs.

¹⁸ According to *Defining Tennessee Education: A Glossary of Education Terms*, the Tennessee Value-Added Assessment System (TVAAS) is a statistical method based on standardized test data that is used to measure the influence of a district, school, or teacher on the academic progress (growth rates) of individual students or groups of students from year to year. The concept behind TVAAS is that schools should add value every school year for each student, regardless of whether the student begins the year above, at, or below grade level. A TVAAS score of 4 or 5 shows that students in the school made more progress than the state’s average.

Overall Conclusion

Based on our audit work, we determined that ASD management has established a reasonable process to select and contract with CMOs. In addition, based on our audit work, we determined that ASD management implemented a reasonable process to match CMOs with priority schools to achieve the best outcomes for student performance.

APPENDIX 1
Tennessee Priority Schools by Local Education Agency



APPENDIX 2
Charter Management Organizations (CMOs) and Their Schools by Location

Memphis		
CMO	Schools	Phase-In Year
Achievement Schools (Direct Run)	Corning Achievement Elementary	2012-2013
	Frayser Achievement Elementary	2012-2013
	Westside Achievement Middle	2012-2013
	Georgian Hills Achievement Elementary	2013-2014
	Whitney Achievement Elementary	2013-2014
Aspire	Hanley Elementary School #1	2013-2014
	Hanley Elementary School #2	2013-2014
	Coleman Elementary School	2014-2015
Capstone	Cornerstone Prep-Lester Campus	2012-2013
	Lester Prep	2014-2015
	Cornerstone Prep-Denver Campus	2015-2016
Frayser Community Schools	Martin Luther King Jr. College Preparatory High School	2014-2015
Freedom Prep	Freedom Preparatory Academy-Westwood	2014-2015
Gestalt	Humes Preparatory Academy	2012-2013
	Klondike Preparatory Academy	2013-2014
GreenDot	Fairley High School	2014-2015
	Wooddale Middle	2015-2016
	Hillcrest High School	2016-2017
	Kirby Middle School	2016-2017
KIPP Memphis	KIPP Memphis Academy Elementary	2013-2014
	KIPP Memphis Preparatory Middle	2013-2014
	KIPP Memphis University Middle	2014-2015
	KIPP Memphis Preparatory Elementary	2015-2016
Libertas	Libertas School at Brookmeade	2015-2016
Pathways in Education	Pathways in Education–Memphis in Frayser	2014-2015
	Pathways in Education–Memphis in Whitehaven	2014-2015
Project Grad	GRAD Academy Memphis	2013-2014
Promise Academy	Promise Academy-Spring Hill	2014-2015
Scholar Academies	Memphis Scholars Florida-Kansas	2015-2016
	Memphis Scholars Caldwell-Guthrie	2016-2017
	Memphis Scholars Raleigh-Egypt	2016-2017

Nashville		
CMO	Schools	Phase-In Year
LEAD	Brick Church College Prep	2012-2013
	Neely’s Bend College Prep	2015-2016

APPENDIX 3
Finding 2
Details of Deficiencies Noted Relating to Expenditures, Travel Claims, and Purchasing Cards

Expenditure Transactions and Travel Claims			
Issue	Condition	Criteria	Cause
Expenditure Approvals	Management did not properly approve nine expenditure transactions totaling \$83,363, and seven travel claims totaling \$2,460. Two expenditure transactions and two travel claims did not have all required management approvals before the payment was processed. Four of the expenditure transactions represented reimbursements to charter management organizations. Three of the expenditure transactions and expenses on five travel claims were paid using a procurement card. For these items, the cardholder's supervisor did not properly sign and date the transaction log.	According to ASD's <i>Financial Policies and Procedures Manual</i> , any purchase order of \$10,000 or higher must be approved by three people, including a department head, a Chief Operating Officer (COO) or Chief Financial Officer (CFO,) and the Superintendent. Purchase orders below \$10,000 require two approvers; the first is a department head, and the second is either the COO or the CFO. In addition, the manual states that purchasing cardholders must maintain a monthly transaction log, which is reviewed and signed by their supervisor. ASD uses a standard Request for Reimbursement form for each of their charter management organizations to use to request federal grant funds for the reimbursement school expenses incurred. This form must be signed and dated by an authorized school representative, two members of ASD's federal programs staff, ASD's Chief Financial Officer, and ASD's Superintendent.	According to the COO, reviewers lacked knowledge of appropriate approval for expenditures and travel claims.
Unreasonable Expenses	While testing expenditure transactions, travel claims, and purchasing card purchases, we found transactions that appeared unreasonable or excessive. Each transaction is listed below.	ASD receives taxpayer and private funds for the express purpose of reforming poorly performing schools. Any funds received by ASD should be used first and foremost to further this goal and improve the lives of the children enrolled in its schools. Any expenditure that does not further this goal or one that spends much more than is reasonable should be avoided.	

Expenditure Transactions and Travel Claims			
Issue	Condition	Criteria	Cause
Unreasonable Expenses (cont.)	a. The former Superintendent claimed a \$75 Uber Black expense from the New Orleans airport to a hotel for himself and another employee. Uber Black is the company's most expensive luxury service, although less expensive options were available. According to the airport's website, the flat fare for a standard taxi ride from the airport to the Superintendent's destination was quoted at \$36.		According to the COO, ASD's financial manual does not make a distinction on what is considered luxury or wasteful transportation expenditures. Therefore, he feels that Uber Black is the same as a taxi or UberX, and that it's just as allowable as any alternative.
	b. Management paid \$698 for all-day transportation services to drive the Deputy Superintendent to Memphis to attend a full day of meetings. Management booked this service at least six days in advance. At the time, management did not document the reason this option was the best compared to any alternatives.		The COO stated that the service was procured so that the Deputy Superintendent could travel to and from Memphis in one day for a required meeting.
	c. ASD made a \$150 donation to the Denver Park Neighborhood Association, a private neighborhood association in Memphis, for a ribbon-cutting ceremony.		According to their COO, part of ASD's mission is to become more involved in communities, with parents, and in the lives of their students. This donation was for the opening of a new playground or park in the Denver Park Neighborhood. ASD kept no record of the purpose of this donation.
	d. Management spent \$2,500 on a holiday event held at the Sheraton Hotel in Memphis for all ASD schools and staff and to recognize the outgoing Superintendent. The event included expensive finger foods, alcohol, and a bartender.		The COO stated that this event was to award top leadership of ASD's schools for their hard work and dedication.
	e. In recognition of ASD school leaders and support staff, management purchased \$1,631 of alcohol using a purchasing card and charged the expense to Charter School Grant Funding, a private grant that provides "restricted funding for operating expenses for school year 2015-16 Achievement Schools: Corning Achievement, Frayser Achievement, Georgian Hills Achievement, Westside Achievement, and Whitney Achievement."		According to the COO, the charge used was in accordance with the grant's purpose of providing robust leadership to the schools through an expanded Support and Leadership team.

Expenditure Transactions and Travel Claims			
Issue	Condition	Criteria	Cause
Travel Claim Submissions	ASD employees submitted 6 travel claims in the ExpenseWatch system from 5 days to 189 days late, and without an attached memo signed by the supervisor. Two of these claims were more than 60 days late.	<p>According to ASD's <i>Financial Policies and Procedures Manual</i>, "Claims for reimbursement for travel expenses should be submitted no later than thirty days after completion of the travel. Any claim submitted after 30 days must be submitted with a memo and supervisors signature."</p> <p>According to Internal Revenue Service Publication 463, an employee receiving a reimbursement for travel expenses should have that reimbursement included in their W-2 as taxable income if that reimbursement does not meet the three rules of being an accountable plan. The second rule states: "You must adequately account to your employer for these expenses within a reasonable period of time." The publication defines a "reasonable period of time," stating, "You adequately account for your expenses within 60 days after they were paid or incurred." Therefore, travel claims submitted after 60 days should be included in the employee's W-2 as taxable income.</p>	According to the COO, reviewers lacked the knowledge pertaining to travel claim and the related controls.
Travel Claim Expenses	For one travel claim tested, totaling \$16, an employee, who stayed in Memphis overnight, purchased and claimed a meal expense for a friend who was not an ASD employee.	This person was not an ASD employee, and therefore was not eligible for travel reimbursement.	According to the COO, ASD occasionally allowed employees to pay for food for non-employees, such as when recruiting potential employees. We did not find any evidence that the employee was recruiting a potential employee.

Expenditure Transactions and Travel Claims			
Issue	Condition	Criteria	Cause
Travel Claim Expenses (cont.)	For one travel claim tested, totaling \$65, management reimbursed the employee for the wrong amount. The employee purchased dinner for himself and a friend and paid for one meal, which they split, plus dessert (\$10) and alcohol (\$22). According to the employee, he meant to exclude the dessert and alcohol from the total, as he did not consume these items. However, he simply divided the meal total in half (\$72.50) and submitted it for reimbursement. The employee received \$65 in reimbursement, which was the maximum reimbursement allowed, but should have received \$52.		According to the COO, the employee intended to split the bill and exclude the alcohol and dessert. The COO stated that he and the employee will work to correct this issue.
	ASD does not have any travel policies or procedures addressing an employee's official workstation. During our testwork, we found one employee who worked at ASD's main office in Memphis, but lived two hours away, claimed meals purchased at Memphis-area restaurants.	Because ASD's policies and procedures are silent regarding official workstations, we referred to the State of Tennessee's Comprehensive Travel Regulations, which state that if an employee works predominantly from home and reports to an office or other station less than twice a week, the employee's home may be declared her official station by the department head. Because management does not require employees to adequately record time and attendance and teleworking policies, we could not determine this employee's official workstation or the justification for travel reimbursement.	According to the Director of Fiscal Strategy at the Department of Education, this issue was caused by a lack of clear policy and documentation surrounding travel policy in general. ASD set this employee's workstation as her home rather than Memphis, but did not maintain documentation of it.
Accounting Issues	For three expenditure transactions, totaling \$13,178, and two travel claims, totaling \$4,676, management coded the amounts in the wrong accounts.	According to ASD's <i>Financial Policies and Procedures Manual</i> , "ASD should provide for the classification of revenues, expenditures, and expenses into certain specific categories in accordance with the Tennessee Uniform Chart of Accounts."	According to the COO, the financial staff struggled to consistently code transactions.
	The supporting documentation for three expenditure transactions, totaling \$41,346, was not mathematically accurate. These transactions represented reimbursements to charter management organizations and consisted of amounts reported on employee pay statements; however, we could not determine which pay statements were included in the reimbursement request.		According to the Director of Fiscal Strategy, the miscalculations resulted from a misunderstanding of federal rules regarding documentation requirements.

Expenditure Transactions and Travel Claims			
Issue	Condition	Criteria	Cause
Unsupported Transactions	For one expenditure transaction, totaling \$2,000, management procured the services of a coach and obtained a contract specifying the coach’s sport and dates of service, but based on our review of the invoice, neither the sport nor the dates of service matched the contract.	Principle 10.03 of the Green Book, under “Appropriate Documentation of Transactions and Internal Control.” states: “Management clearly documents internal controls and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are properly managed and maintained.”	According to the COO, this issue may have been a copy and paste error, and an employee may not have revised the description and dates.
	For six expenditure transactions for a dental insurance premium, donation, coffee supplies, and accrual calculations, totaling \$131,637, and for three travel claims for a flight and expenses involving CMOs, totaling \$4,734, management could not provide supporting documentation.		Management could not explain why the supporting documentation could not be located.

Purchasing Card Purchases			
Issue	Condition	Criteria	Cause
Purchasing Card Issuance	To use a purchasing card, employees must sign a Purchasing Card Usage Agreement, which describes the terms, conditions, and responsibilities of using a card. For the nine employees with purchasing cards during the audit period, one employee did not date the agreement, and six employees signed the agreement after they received their purchasing card. In addition, the Controller did not sign or date agreements indicating her approval for these employees to have a card. According to ASD’s former Controller, cardholders did not receive training until May 12, 2016.	<p>Because ASD cardholders did not receive ASD’s P-Card Usage Policy, we used the state’s Central Procurement Office Statewide Purchasing Card Policy and Procedures as best practices.</p> <p>Section 5.7.1 of the Central Procurement Office Statewide Purchasing Card Policy and Procedures states that the cardholder must sign the cardholder agreement as a condition for obtaining a purchasing card. The policy and procedures also states that cardholder training is critical to ensure that the cardholder understands the purchasing card program procedures. Once training is complete, the cardholder signs a cardholder agreement.</p>	Unless otherwise noted the department’s Director of Fiscal Strategy provided the following explanation for all purchasing card deficiencies. For the purchasing card deficiencies noted, the department’s Director of Financial Strategy stated that ASD staff were more concerned with getting the job done than controls; however, ASD management will begin using the state’s payment card program rather than maintaining their own.
Appropriate Receipt Information	For nine purchasing card purchases tested, management could not provide the appropriate receipts because they did not contain an itemized list of purchases.	According to ASD’s P-Card Usage Policy, the following information is required on receipts: vendor name; transaction; purchase date; description of each item purchased, including unit price and quantity; and transaction total.	

Purchasing Card Purchases			
Issue	Condition	Criteria	Cause
Purchasing Card Purchases	For 61 purchasing card purchases, totaling \$14,895, cardholders did not obtain advanced approval as required by ASD policy.	According to ASD's <i>Financial Policies and Procedures Manual</i> , "The cardholder must obtain supervisor approval before purchases are made."	
	For eight purchasing card purchases from Amazon, BB Kings Blues Club, and other retail stores, totaling \$1,998, management could not provide the transaction logs containing these purchases or the related receipts.	According to ASD's <i>Financial Policies and Procedures Manual</i> , "Cardholders are responsible for assuring accuracy of credit card charges, maintaining receipt documentation, and keeping the P-Card account number in a secure location at all times. P-Card holders maintain a monthly transaction log, which is reviewed and signed by their supervisor. Finance receives the signed log and receipt documentation each month. While the cardholders are responsible for accuracy and completeness, to ensure compliance P-Card transactions are reviewed monthly by the Finance Team."	
Hotel Charges	For four purchasing card purchases, cardholders charged hotel stays at rates that exceeded the maximum reimbursable rate, resulting in an overpayment of \$130. Management could not provide any documentation, such as a conference brochure, to justify the higher rate.	ASD's <i>Financial Policies and Procedures Manual</i> states that out-of-state lodging will be reimbursed at the CONUS [continental United States] rate (determined by the U.S. General Services Administration). Out-of-state lodging expenses incurred while on authorized travel will be reimbursable at the CONUS rate unless a higher rate is documented by a convention brochure or registration form.	
	Three purchasing card purchases included lodging for one night.	Communication provided to ASD employees in July 2015 by ASD's Chief Operating Officer states that "ASD will cover hotel stays of 2 or more nights. One night hotel stays will need to be paid for by the employee and submitted for reimbursement through ExpenseWatch."	
Sales Tax	For P-Card purchases, the cardholder paid sales tax totaling \$168.27.	According to the ASD Financial Policies and Procedures Manual, "Tennessee State Sales Tax shall not be charged to the purchases."	According to the Director of Fiscal Strategy, cardholders may not have thought about sales tax when using their card.

Purchasing Card Purchases			
Issue	Condition	Criteria	Cause
Transaction Logs	For 30 P-Card purchases, we examined the cardholder's transaction logs containing these purchases. The transaction logs containing 24 purchases did not contain a reviewer's signature; the transaction logs for 6 purchases indicated they were reviewed several months after the purchases were made.	According to the ASD Financial Policies and Procedures, "Cardholders are responsible for assuring accuracy of credit card charges, maintaining receipt documentation, and keeping the P-Card account number in a secure location at all times. P-Card holders maintain a monthly transaction log, which is reviewed and signed by their supervisor. Finance receives the signed log and receipt documentation each month. While the cardholders are responsible for accuracy and completeness, to ensure compliance P-Card transactions are reviewed monthly by the Finance Team."	
	ASD staff and employees failed to reconcile transaction logs containing 38 purchasing card purchases to the credit card statements before ASD paid the credit card bill		

APPENDIX 4
National Association of Charter School Authorizers
Standards for Quality Charter School Authorizers
When Contracting With Charter Management Organizations

Proposal Information, Questions, and Guidance
<i>Characteristic of a Quality Authorizer</i>
1. Issues a charter application information packet or request for proposals (RFP) that: <ul style="list-style-type: none"> • States any chartering priorities the authorizer may have established • Articulates comprehensive application questions to elicit the information needed for rigorous evaluation of applicants’ plans and capacities • Provides clear guidance and requirements regarding application content and format, while explaining evaluation criteria
2. Welcomes proposals from first-time charter applicants as well as existing school operators/replicators, while appropriately distinguishing between the two kinds of developers in proposal requirements and evaluation criteria
3. Encourages expansion and replication of charter schools that demonstrate success and capacity for growth
4. Is open to considering diverse education philosophies and approaches, and expresses a commitment to serve students with diverse needs

Fair, Transparent, Quality-Focused Procedures
<i>Characteristic of a Quality Authorizer</i>
1. Implements a charter application process that is open, well publicized, and transparent, and is organized around clear, realistic timelines
2. Allows sufficient time for each stage of the application and school pre-opening process to be carried out with quality and integrity
3. Explains how each stage of the application process is conducted and evaluated
4. Communicates chartering opportunities, processes, approval criteria, and decisions clearly to the public
5. Informs applications of their rights and responsibilities and promptly notifies applicants of approval or denial, while explaining the factors that determined the decision

Rigorous Approval Criteria
<i>Characteristic of a Quality Authorizer</i>
1. Requires all applicants to present a clear and compelling mission, a quality educational program, a solid business plan, effective governance and management structures and systems, founding team members demonstrating diverse and necessary capabilities, and clear evidence of the applicants capacity to execute its plan successfully
2. Establishes distinct requirements and criteria for applicants who are existing school operators or replicators

3. Establishes distinct requirements and criteria for applicants proposing to contract with education service or managements providers
4. Establishes distinct requirements and criteria for applicants that propose to operate virtual or online charter schools

Rigorous Decision Making
<i>Characteristic of a Quality Authorizer</i>
1. Grants charters only to applicants that have demonstrated competence and capacity to succeed in all aspects of the school, consistent with the stated approval criteria
2. Rigorously evaluates each application through thorough review of the written proposal, a substantive in-person interview with each qualified applicant, and other due diligence to examine the applicant’s experience and capacity, conducted by knowledgeable and competent evaluators
3. Engages, for both written application reviews and applicant interviews, highly competent teams of internal and external evaluators with relevant educational, organizational (governance and management), financial and legal expertise, as well as thorough understanding of the essential principles of charter school autonomy and accountability
4. Provides orientation for training to application evaluators (including interviewers) to ensure consistent evaluation standards and practices, observance of essential protocols, and fair treatment of applicants
5. Ensures that the application-review process and decision making are free of conflicts of interest, and requires full disclosure of any potential or perceived conflicts of interest between reviewers or decision maker and applicants