STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

DEPARTMENT OF EDUCATION
STATE BOARD OF EDUCATION

_____

Performance Audit Report

November 2014

_____

Justin P. Wilson
Comptroller of the Treasury
Department of Audit
Division of State Audit

TENNESSEE
COMPTROLLER
OF THE TREASURY

November 14, 2014

The Honorable Ron Ramsey
  Speaker of the Senate
The Honorable Beth Harwell
  Speaker of the House of Representatives
The Honorable Mike Bell, Chair
  Senate Committee on Government Operations
The Honorable Judd Matheny, Chair
  House Committee on Government Operations
        and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

The Honorable Kevin Huffman, Commissioner
Department of Education
9th Floor Andrew Johnson Tower
        and
Dr. Gary Nixon, Executive Director
State Board of Education
1st Floor Andrew Johnson Tower
710 James Robertson Pkwy
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Department of Education and the State Board of Education for the period July 1, 2012, through June 30, 2014. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-11, *Tennessee Code Annotated.*

This audit is intended to aid the Joint Government Operations Review Committee in its review to determine whether the department and board should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/037

State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

Performance Audit
Department of Education and State Board of Education
November 2014

_____

SCOPE AND METHODOLOGY OF THE AUDIT

We audited the Department of Education's and the State Board of Education's activities for the period of July 1, 2012, through June 30, 2014. Our audit scope included a review of internal controls and compliance with laws, regulations, and provisions of contracts that are significant within the context of the audit objectives. Management of both the department and the State Board of Education 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

Although the department has improved its management and oversight of school-age child care monitoring programs, it has not fully implemented all recommendations from the previous performance audit

The department has made improvements within the School Based Support Services Division since the 2011 performance audit, yet management and oversight practices are not in accordance with all of the previously suggested changes. The Internal Audit Division's April 2014 review of the school-age child care management and oversight function reiterated that four of the Comptroller's prior audit recommendations are not currently being implemented (page 4).

The department does not have a centralized process to verify local education agencies' self-reported data for annual school approvals

The 2011 performance audit found that the department did not have a centralized process to verify local education agencies' (LEA) self-reported data for annual school approvals. The Office of School Approval may not be aware of noncompliance because different areas of the department are responsible for different aspects of ensuring the LEAs' compliance. In fact, some rules and laws are not checked by any division. This leaves the department at risk of approving LEAs that are not in compliance (page 7).

OBSERVATIONS

The audit report also discusses the following issues: the department complies with federal time and complaint system requirements pertaining to special needs students (page 9); the status of the teacher evaluation implementation (page 10); the status of the Race to the Top grant (page 14); the status of Common Core State Standards and Partnership for Readiness for College and Careers assessments (page 17); and the status of the Basic Education Program (page 21).

Performance Audit
Department of Education and State Board of Education

TABLE OF CONTENTS

TABLE OF CONTENTS (Cont.)

Performance Audit
Department of Education and State Board of Education

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Department of Education and State Board of Education, scheduled to terminate June 30, 2015, was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the Department of Education and the State Board of Education should be continued, restructured, or terminated.

HISTORY AND STATUTORY RESPONSIBILITIES

Section 4-3-801, *Tennessee Code Annotated*, created the Department of Education, and Section 49-1-301, *Tennessee Code Annotated*, created the State Board of Education. The department is responsible for the state's public education system for grades K through 12 and the pre-K program. According to Sections 49-1-201 and 49-1-1101, the Commissioner of Education's duties include

- implementing law or policies established by the General Assembly or the State Board of Education and ensuring that these laws and the board's regulations are faithfully executed;

- collecting and publishing statistics and other information about the public school system;

- inspecting and surveying public schools;

- submitting annually to the Governor a detailed report on the condition and progress of public schools;

- revoking licenses of school faculty found guilty of immoral conduct;

- inspecting, approving, and classifying private schools at their request;

- presenting to the State Board of Education, for its action, rules and regulations necessary to implement board policies or state law;

- conducting a public information program concerning public schools, subject to the approval of the board; and

- inspecting and approving child care centers operated by church-related schools and local school systems.

The State Board of Education is the governing and policy-making body for the Tennessee system of public elementary and secondary education. Its work touches all facets of education, from accountability and evaluation to curriculum and teacher education. Board staff provides ongoing policy research and analysis of public education issues including instruction, student assessment, and funding. The board works closely with the General Assembly to secure legislative support for education. The board also coordinates its efforts with the Department of Education, which implements law and policies established by the General Assembly and the board. Through its annual report on student, teacher, and school performance, the board provides the state legislature and the public with information about the status of education in Tennessee.

The State Board of Education is composed of nine members—one from each of Tennessee's eight congressional districts and one student member. All members are appointed by the Governor and confirmed by the General Assembly. Board members serve a five-year term; the student member serves a one-year term.

AUDIT SCOPE AND METHODOLOGY

We audited the department's and board's activities for the period July 1, 2012, through June 30, 2014. Our audit scope included a review of internal controls and compliance with laws, regulations, and provisions of contracts that are significant within the context of the audit objectives. Management of the Department of Education and State Board of Education 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the actions taken to implement the recommendations in the prior audit report. Pursuant to the Public Acts of 2011, Chapters 43 and 476, the Division of State Audit must submit to the House and Senate Government Operations Committees by July 1, 2013, its findings on the department's and board's responses to the findings and recommendations in the January 2011 audit.

RESOLVED AUDIT FINDINGS

We found in this audit that the State Board of Education had resolved two findings from the 2011 performance audit regarding 1) notification to the Secretary of State's Office of board member vacancies and appointments and 2) requiring its members and staff to complete annual conflict-of-interest statements. We found that the Department of Education resolved two findings: the department's lack of a formal plan to address teacher shortages, and mistakes by a contractor and a department employee jeopardizing the department's compliance with federal laws.

REPEATED AUDIT FINDINGS

The 2011 performance audit contained two additional findings: one regarding the department's lack of oversight of child care programs and one regarding the need for a centralized process of verifying local education agencies' self-reported data. Neither finding has been fully resolved, and both are repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

OVERSIGHT OF SCHOOL-AGE CHILD CARE PROGRAMS

Our objective related to the Department of Education's oversight of school-age child care programs was to determine whether the department has addressed the 2011 performance audit's recommendations.

Based on interviews with departmental personnel and review of documentation, we determined that while the department has made significant improvements, it should take steps to continue improving its child care monitoring efforts.

Finding

1.   **Although the department has improved its management and oversight of school-age child care monitoring programs, it has not fully implemented all recommendations from the previous performance audit**

The department has made improvements within the School Based Support Services Division since the 2011 performance audit, yet management and oversight practices are not in accordance with all of the previously suggested changes. The Internal Audit Division's April 2014 review of the school-age child care management and oversight function reiterated that four of the Comptroller's prior audit recommendations are not currently being implemented. Department officials stated that extenuating circumstances and other obstacles have prevented the implementation of all of the recommended changes.

The 2011 performance audit found that the department's lack of oversight of the child care program hindered the department's ability to ensure that child care centers meet board standards (see table below). Specifically, Section 49-1-1101, *Tennessee Code Annotated,* requires the department to review and approve child care centers that meet standards set by the State Board of Education. The department conducts reviews of approximately 2,073 child care centers operated by local school systems, church-related schools, and all early childhood programs. Field staff known as child care program evaluators conduct inspections to determine whether the programs are in compliance with board standards and if child care programs meet certificate of approval requirements. A previous 2006 performance audit found that the department was not documenting that all child care programs met certificate of approval requirements before granting the certificate. More recently, an August 2012 follow-up audit revealed that while some of the Comptroller's recommendations had been addressed, the department was only in the process of implementing some of the corrective measures—and had not begun other corrective measures at all.

The 2011 performance audit identified that the child care monitoring program is a decentralized system for which 18 evaluators must cover the entire state. Thus, the risks of fraud, waste, abuse, error, inefficiency, and ineffectiveness of programs are elevated. Furthermore, because child welfare is directly impacted by this program, the department needs a system to provide the information necessary to make the required assurances with regard to the program's outcomes and accountability.   These issues underscore the need for sound management and oversight practices.

Primary Child Care Requirements

Source	Requirement for Child Care Workers or Program
State Board Rule 0520-12-1-.07	Requires workers to have background checks, which should be verified during the department's annual evaluation.
Section 49-1-1108, *Tennessee Code Annotated*	Requires each program to submit an annual report by October 1 to qualify for a certificate of approval.

State Board Rule 0520-12-1-.04	Requires each program to have at least two visits from the department each year, one of which may be unannounced.
State Board Rule 0520-12-1-.03	Requires each program regulated by the Department of Education to receive an annual certificate of approval in order to continue operations.

The Internal Audit Division's April 2014 report entitled *Review of the School-Age Child Care Management and Oversight Function* reported that 54% of annual report forms were incomplete—missing dates, signatures, or check-offs—and four out of the nine recommendations from the 2011 performance audit report were still not implemented. In fieldwork for this audit, our interviews with department officials and review of division documentation revealed the following:

- the program director was not making regular visits to the field service centers to participate in inspections with evaluators;

- the program director was not regularly reviewing inspection documentation and comparing it to itineraries submitted by evaluators;

- directors of some child care programs for school-age children were not signing corrected copies of the annual report each year; and

- child care evaluators were not being systematically rotated among regional offices.

Department officials stated that extenuating circumstances have prevented them from implementing all of the previous performance audit's recommendations. The program director's high workload prevents her from making routine site visits, geographic factors pose a significant logistical hurdle with rotating cases between inspectors, and department officials cite staffing shortages and organizational changes. Organizational changes that have occurred since the 2011 performance audit include the following:

- the School-Age Child Care Program was moved from the Early Childhood area to State Operations to streamline the functioning of the unit and to reduce Early Childhood-related responsibilities for the director;

- direct supervision of the 18 child care evaluators was shifted from the regional offices to the Nashville director in October 2013; and

- one child care evaluator began serving as an assistant to the director and was assigned to create a manual for child care evaluators and to review child care rules, as mandated by state law.

While the previous performance audit's recommendation that itineraries be regularly checked against inspection documentation has not exactly been met, department staff implemented alternative internal controls over inspection verification. Program evaluators submit weekly itineraries and monthly logs that specify the date and type of program inspection. Management reviews these logs and randomly samples for verification of site inspections through direct contact with child care facilities. Additionally, staff retains verification forms (signed by both the program evaluator and program site representative) to verify that a program

inspection was performed. The testwork from the 2014 Internal Audit report revealed that these forms were highly accurate and matched for 99% of the sample.

Although department management has made significant improvements, it can continue to strengthen its oversight of school-age child care programs. As workload allows, the program director may make periodic visits to regional offices, shadow inspectors, verify that inspections are being conducted, and assess inspection thoroughness. In regional offices where multiple inspectors are assigned, management may wish to rotate child care facilities among inspectors.

Recommendation

The department should ensure that child care program directors complete an annual report as required by statute. The department program director should make occasional site visits and accompany inspectors to child care sites to ensure inspections are thorough. Where logical, management should periodically rotate inspectors.

Management's Comment

We concur. As noted in the report, the department has made significant improvements in its oversight of school-age child care programs and has implemented most of the recommendations in the prior performance audit. In regard to annual reports, the department has revised the annual report format for 2014-15, which now allows for capturing the name of the person completing the annual report and the date the report is completed. Moving forward, the program director will make a program site visit with each inspector at least once a year. In regard to the rotation of inspectors, for 2014-15, the department was able to fully or partially reassign inspectors in 18 counties in the state. The department will continue to strive to rotate inspectors within the constraints of geography, cost of travel, efficiency of staff time, and limited number of inspectors in rural areas of the state.

VERIFICATION OF LOCAL EDUCATION AGENCY DATA

Our objective related to the Department of Education's efforts to verify self-reported data by local education agencies (LEAs) was to determine whether the department addressed the 2011 performance audit's recommendations. The 2011 audit found that the department did not have a centralized process to verify self-reported data by LEAs for annual school approvals. Although the department verifies some of the self-reported information, there is not a centralized mechanism to ensure the Commissioner of Education that the state's 142 LEAs are in full compliance with state laws and board rules.

Based on interviews with departmental personnel and testwork performed, we determined that the department has not fully addressed the previous performance recommendations.

Finding

2.   The department does not have a centralized process to verify local education agencies' self-reported data for annual school approvals

The 2011 performance audit found that the department did not have a centralized process to verify local education agencies' (LEA) self-reported data for annual school approvals. The department agreed with the finding and began to address coordination issues.

LEAs must demonstrate compliance with state laws and State Board of Education rules by submitting an annual compliance report to the department. The department verifies some of the self-reported information; however, there is not a centralized mechanism to ensure the Commissioner of Education that LEAs are in full compliance.

Department staff uses the LEA compliance report to approve each LEA annually. The Commissioner of Education grants approval to LEAs that are either in compliance with state education laws and board rules, or have a plan for compliance. The compliance report also includes signatures of the district superintendent and the school board chair attesting to the following statement: "I certify that, except for those items listed in the attached document which includes a compliance plan for each item, the LEA is in compliance with all Tennessee statutes and board rules."

As recommended in the 2011 audit report, the department's Internal Audit Division annually audits a sample of LEAs' documentation and other areas. The sample averages 15 LEAs per year and verifies compliance with a sample of state laws and board rules.

We asked department officials who verify that the LEAs' self-reported information is accurate and found that there is not one centralized process to verify the self-reported information. The Office of School Approval may not be aware of noncompliance because different areas of the department are responsible for different aspects of ensuring the LEAs' compliance. In fact, some rules and laws are not checked by any division. This leaves the department at risk of approving LEAs that are not in compliance.

Since different areas of the department are responsible for ensuring compliance with individual aspects of laws and rules, most information/evidence necessary to prove compliance should already be available in departmental records.

Recommendation

The Commissioner should direct officials in the Office of Data Quality and Integrity to devise and implement a process for verifying the LEAs' self-reported data. The process should include procedures to provide a transparent and simple method for the office to quickly determine if an LEA is in full compliance with all requirements. The office should coordinate all verification efforts to avoid unnecessary duplication of efforts.

Management's Comment

We partially concur. As acknowledged in the report, the department implemented the recommendation in the prior performance audit report regarding compliance reviews of school districts. During 2013-14, the department's Internal Audit Section conducted reviews of compliance with state education laws, rules, and policies in 27 school districts. The scope of these reviews included verification of data in the state's Education Information System, which is self-reported data from school districts that is used by the state to calculate funding and to provide other reporting on the status of PK-12 education in the state.

We believe it is also important to note that school approval is one part of a larger framework of accountability the department uses to ensure school districts comply with state education laws, rules, policies, and performance standards. With limited resources, the department must focus its resources on the most important educational mandates and goals. Clearly the most important of these is ensuring Tennessee students make adequate educational progress. With the adoption of new accountability standards through the creation of the Achievement School District (ASD), the department has progressively strengthened its oversight of school districts and schools. Relating to the approval or disapproval of schools, the most serious sanction the department can invoke is the takeover of a school for poor performance. Through the ASD, the department has taken such action—the ASD operates 19 schools that were formerly under the control of local school districts. Through its reporting structure, which includes the State Report Card, federal program and state compliance monitoring reports, and periodic manager check-ins with department leaders, including the Commissioner, information on the status of school district performance and compliance is shared frequently and acted upon appropriately.

Moving forward, the department will review ways it can improve the transparency of information on school district compliance. We do not believe it will be possible for us to develop a simple method to quickly determine if a school district is in full compliance with all requirements, as suggested in the recommendation, given that Tennessee's 142 local education agencies are independent entities subject to a broad array of requirements in law and regulation for which they ultimately must be responsible. However, the department will appoint a task force to study how the school approval process can be improved. The designation of a staff person to serve as school approval lead and the development of a tracking tool to centrally document the results of department monitoring and verification of school district compliance will be two areas to be studied by the task force.

Observation

The department complies with federal time and complaint system requirements pertaining to special needs students

Identification of students with special needs and subsequent service intervention is important to their development. The federal Individuals with Disabilities Education Act (IDEA) establishes requirements for state monitoring and enforcement of LEA performance with students with disabilities. IDEA requires the Department of Education to implement and maintain a complaint process for parents of students with special needs. Federal regulations also require the department to ensure LEAs are meeting specified timelines for identifying whether students have special needs and if so, whether they are holding meetings to establish education plans so that services are initiated as quickly as possible. As part of the audit, we examined the department's compliance with federal regulations for these two requirements.

For adherence to federal complaint process requirements, we examined

- whether the department has a complaint system established;

- whether the letter sent to the individual who filed a complaint contained the required elements; and

- whether the department investigated and issued a written decision within 60 days of receiving a complaint.

To determine whether the department meets federal standards of monitoring LEAs for compliance with IDEA requirements, we

- compared self-reported information from the LEAs with information contained in the EasyIEP system (EasyIEP is a special education data management system that allows LEAs to enter all requisite documentation for students with disabilities into a single online system);

- noted the dates department staff audited the LEAs;

- determined that if the department identified any issues with an LEA adhering to IDEA requirements during its audit, whether the department required a corrective action plan, whether the plan was implemented by the LEA, and whether the department verified that the LEA adhered to the corrective action plan; and

- assessed whether LEAs met IDEA time requirements and, if not, whether the department identified this as an issue.

Based on interviews with department officials and review of department records, we found that the department was in compliance with federal regulations.

Status of the Teacher Evaluation Implementation

Tennessee's education reform began in January 2010, when the General Assembly passed the First to the Top Act, which laid out the parameters for a new comprehensive, student outcomes-based, statewide educator evaluation system to be implemented during the 2011-2012 school year. In March 2010, the U.S. Department of Education awarded the state a $501 million Race to the Top grant authorized under the federal American Recovery and Reinvestment Act of 2009. The grant ended in July 2014. One of the grant program's primary reform areas focused on developing, retaining, and incentivizing teachers and leaders. As one of the first states to implement such an educator evaluation model, Tennessee's format specified that teacher evaluations must be composed of both quantitative and qualitative measures based on classroom observations, student achievement, and student growth.

Tennessee's educator evaluation model began its fourth year with the start of the 2014-2015 school year, and it will be used to assess over 70,000 teachers and school services personnel. Outcome data and stakeholder feedback are available for the model's first two years, and the Department of Education has released two reports detailing how the system is working to date. Recommendations from the first year report led the department to change classroom observations, individual teacher evaluations, and school-wide growth scores, and to grant many districts the approval to customize the teacher evaluation model. Additionally, the 2013 state-administered Teaching, Empowering, Leading, and Learning survey found that, over a two-year timeframe, teachers' perceptions of work conditions related to student success have improved. In 2012-2013, the Tennessee Consortium for Research, Evaluation, and Development, an independent research organization external to the Department of Education, administered a survey that measured teachers' perception on Race to the Top initiatives, and it found that two-thirds of teachers now feel that the evaluation process treats them fairly. However, the same report reveals that half of all teachers feel dissatisfied with some aspect of the teacher evaluation process, indicating that there is additional room for improvement. The third-year report is due out in October 2014.

The previous statewide teacher evaluation system was in place until the 2011-2012 school year and only involved one to two educator evaluations over a five- to ten-year period. The new evaluation system departs significantly from the old model: now teachers are evaluated annually and observed multiple times throughout the course of each year. A teacher's observation schedule is a function of several factors, including licensure status; educator type; prior evaluation scores; and the evaluation rubric employed within each district. An integral part of the First to the Top Act was recruiting key education stakeholders into the discourse regarding policy and implementation issues. The act created the Teacher Evaluation Advisory Committee, which consists of teachers, principals, superintendents, legislators, business leaders, and other community members, and it ultimately led to the endorsement of the Tennessee Educator Acceleration Model (TEAM) rubric (described below) as the state evaluation model.

TEAM Rubric
Teachers With Individual Growth Scores

50% of the evaluation to be comprised of student achievement data:
• 35% based on student growth, as represented by the Tennessee Value-Added System (TVASS) or a comparable measure; and
• 15% based on additional measures of student achievement adopted by the State Board of Education and chosen through mutual agreement of the educator and evaluator.
50% of the evaluation is determined through qualitative measures such as teacher observations, student perception surveys, personal conferences, and review of prior evaluations and work.

Teachers Without Individual Growth Scores

40% of the evaluation to be comprised of student achievement data:
• 25% based on school-wide or system-wide student growth, as represented by the TVASS; and
• 15% based on additional measures of student achievement adopted by the State Board of Education and chosen through mutual agreement of the educator and evaluator.
60% of the evaluation is determined through qualitative measures such as teacher observations, student perception surveys, personal conferences, and review of prior evaluations and work.

The TEAM evaluation model entails a qualitative component that is based on teacher observations and comprises either 50 or 60% of a teacher's overall evaluation score. Depending on licensure status and previous evaluation scores, a teacher will get a designated number of classroom observations and receive a score of 1 to 5 on each of 41 or 60 indicators. The scores are averaged to get a final observation score, which is then put into the respective weights, along with the growth score and achievement measure score, to generate an overall calculation for the teacher effectiveness rating. Below is a departmental example of how a hypothetical teacher effectiveness score would be computed.

Score Range Overall Effectiveness Rating

Overall Observation Score: 4.07 x 50 = 203.5
Growth Score (TVAAS): 5 x 35 = 175
Achievement Measure Score: 4 x 15 = 60
TOTAL: 100% 438.5

Score Range	Overall Effectiveness Rating	Evaluation Scoring
<200	1	Significantly Below Expectations
200 – 274.99	2	Below Expectations
275 – 349.99	3	Meets Expectations
350 – 424.99	4	Above Expectations
425 – 500	5	Significantly Above Expectations

Source: Department of Education, *Teacher Evaluation in Tennessee: A Report on Year 1 Implementation,* July 2012.

The TEAM model draws on both state and national instructional guidelines and standards that comprise the broad set of standards incorporated into the rubric. A key element of this model is the emphasis on feedback, which is driven by stakeholder communication and three primary data sources: the results of the state's annual student assessments; the TVAAS scores of teachers and schools; and the observation scores of teachers. The thousands of data points and educator comments serve as feedback that drives the model for continuous improvement. With each passing year, this collaborative effort is designed to help the evaluation model evolve to improve instruction and student outcomes.

According to the evaluation director, the evaluation system's strength is its flexibility to apply in any environmental context—including the fine arts, world languages, and other non-tested subjects. The rubrics can also account for variables such as classroom composition and prior achievement disparities. Importantly, for some measurement categories, the rubric allows LEAs to choose from a list of student growth measures defined by the State Board of Education. For other categories, educators and evaluators can select agreed-upon measures most closely aligned with the educator's primary responsibilities. The department has also worked with districts to develop alternative individual growth measures for teachers in non-tested subjects.

The department currently has approved five different observation models to be used for teacher evaluations:

- TEAM—the state's primary evaluation rubric, which has variations for general educators, library media specialists, school services personnel, and professionals;

- COACH—a more stringent variation of the primary rubric, which utilizes random and unannounced observations, and is used in four districts in the southeast area of the state;

- Teacher Effectiveness Measure (TEM) used in Shelby County Schools;

- Teacher Instructional Growth for Effectiveness and Results (TIGER), in use in 12 mostly municipal and special school districts; and

- The Achievement Framework for Excellence in Teaching (AFET) used in the achievement school district.

The TEAM rubric is the predominant model used across the state and is based on the National Institute for Excellence in Teaching's (NIET) extensive research. NIET is a nonprofit organization that seeks to build educator excellence and raise student achievement and operates the Best Practices Center, which supports states, districts, and schools. While all rubrics must conform to state law, districts are afforded a degree of flexibility to tailor their rubrics—as evidenced by the State Board of Education's approval of more than 40 plans to modify the state evaluation model. Districts are allowed to make slight adjustments by setting priorities within the evaluation process to help them better achieve local goals. A teacher's observation schedule is a function of several factors, including licensure status educator type, and district-level selection or approved modification to the state evaluation model. The department has also worked with districts to develop alternative individual growth measures for teachers in non-tested subjects.

Teacher Evaluation Data Integrity and Controls

To ensure that evaluation scores are based on accurate data, the department provides all districts with an evaluation data system, which districts can directly enter evaluation scores into. Almost all of the districts use the state system to store their evaluation data. Principals, who are the most commonly used evaluator, primarily enter the scores, but some districts have their own data coordinator to enter all of their evaluation data. Ensuring data integrity is an on-going process. The State Board of Education requires accuracy of the data, meaning that the data identified with a particular teacher should be correct. Because teachers should ideally be aware of their own scores or would likely know if something looks incorrect, they are considered the last line of defense for maintaining evaluation integrity and reliability. Additionally, per board policy 5.201, "evaluators are required to provide written feedback within one week of each observation visit to the educator, and schedule an in-person debrief with the educator within one week of each observation visit." While teachers may disagree with a received score, they can only file a grievance on the basis of inaccurate data or procedural errors. LEAs are statutorily responsible for developing evaluation grievance procedures that can efficiently and fairly resolve disputes involving procedural errors.

Teacher Tenure and Licensure

Implementation of the teacher evaluation system was followed by changes to teacher tenure laws and licensure processes, which collectively aim to improve teacher accountability and performance. In 2011, the First to the Top Act revised Section 49-1-302(d), *Tennessee Code Annotated,* by additionally requiring teachers to be annually evaluated and requiring those evaluations to be a factor in all employment decisions, including licensing and granting tenure. The enactment of the 2011 tenure laws changed the previous laws, which allowed tenure to last for the span of a career and signified job protection. The granting of tenure is still a local process governed by the authority of local school boards within each school district.

Under the previous tenure system, teachers had to fulfill a three-year probationary period in order to be eligible for tenure. The teacher then had to be recommended to the local school board by the director of schools. Once tenure was granted, the teacher's contract was automatically renewed until they resigned, retired, were dismissed for cause, or were returned to a probationary status.

The new law allows for some teachers to be "grandfathered in" under the old tenure system. Section 49-5-501, *Tennessee Code Annotated*, prevents any teacher who acquired tenure status prior to July 1, 2011, from being returned to probationary status. Teachers who had not acquired tenure status prior to July 1, 2011, and had received a high performer rating, were eligible for tenure at the end of their now five-year probation period if they have met the defined performance criteria. This includes meeting the board-defined education and training requirements, holding a valid teaching license, completing the probationary period, and receiving evaluations demonstrating a performance level of "above expectations" or "significantly above expectations" during the last two years of the probationary period.

Under the current system, if a tenured teacher's performance is "below expectations" or "significantly below expectations" for two consecutive years during their annual evaluations, that teacher is required to return to probationary status. Also, under Section 49-5-504,

> When a teacher who has returned to probationary status has received two (2) consecutive years of evaluations demonstrating an overall performance effectiveness level of "above expectations" or "significantly above expectations," the teacher is again eligible for tenure and shall be either recommended by the director of schools for tenure or non renewed; provided, however, that the teacher cannot be continued in employment if tenure is not granted by the board of education.

The State Board of Education is responsible for issuing teacher licenses and setting the mandatory criteria educators must meet. In July 2014, the board approved changes to the teacher licensure policy that will be effective in September 2015. The department intends for the changes to improve the licensure process by "streamlining licensure types, introducing more rigorous entry requirements, and connecting licensure to performance data." The policy change will create two primary license types—the practitioner and professional licenses. The practitioner license is the first license that a teacher receives, is valid for three years, and is renewable once. The professional license is issued to practitioners who have met advancement requirements, is valid for six years, and is continually renewable.

Teacher evaluation scores are not directly tied to licensure; as such, there are no automatic consequences for a consistently low-performing teacher. However, feelings of lowered job security may accompany their poor performance—and the school system may eventually decide to not renew the teacher's contract. Additionally, many school districts are using teachers who receive high teacher evaluation scores as grade-level chairs and in teacher leadership positions. The state also requires each district to develop its own differentiated compensation plan for teachers, which includes not only degree and experiences, but also other factors for compensation. Each differentiated compensation plan must be approved by the State Board of Education.

RACE TO THE TOP

Status of the Race to the Top Grant

Race to the Top (RTTT) is a competitive grant program authorized under the federal American Recovery and Reinvestment Act of 2009. Nationally, the act provided $4.35 billion in RTTT grants, awarded in two competitions: state competition (approximately $4 billion) and standards and assessments competition (approximately $350 million). The grant is designed to encourage and reward states that

- enable education innovation and reform,

- improve student outcomes, and

- focus plans in four core education reform areas.

The four reform areas are:

1. **Standards and assessments**–adopting internationally benchmarked standards and assessments that prepare students for success in college and the workplace.

2. **Data systems to support instruction**–building data systems that measure student success and inform teachers and principals how they can improve their practices.

3. **Great teachers and leaders**–recruiting, developing, retaining, and rewarding effective teachers and principals. Three main activities in this reform area include using performance evaluations to improve teacher effectiveness; ensuring fair distribution of effective teachers in "high-poverty and/or high-minority schools"; and providing effective support to teachers and principals.

4. **Turning around lowest achieving schools**–improving student achievement in the lowest-performing schools by implementing strategies to improve their performance. Tennessee's goal is to design its accountability system to focus on low-achieving schools.

In March 2010, the U.S. Department of Education awarded Tennessee a $501 million RTTT grant. Tennessee received funding over a four-year period, with the grant ending in July 2014. Grant rules specify that the funds are to be split evenly between the state and local education agencies (LEAs). The LEAs' portion, approximately $250.9 million, was to be distributed to the state's 140 LEAs based on the federal Title I formula, though RTTT funding is not subject to Title I restrictions. (Title I is a federal funding program that allocates money to LEAs and schools with "high numbers or high percentages of poor children.")

Each LEA, as required by the grant, created a scope of work detailing its plan for using grant funds. Scopes of work contain specific goals, timelines, budgets, key personnel, and annual targets for key performance measures, and they must align with the RTTT grant application and the four RTTT reform areas mentioned above. The Department of Education provided LEAs with a scope of work template to use in drafting their plans.

According to the Office of Research and Education report *Scopes of Work: How Select Districts Are Using Race to the Top Funds,* Tennessee has trained school staff in every district "to use data for instruction, provide direct and user-friendly access to the state's data assets, and support LEAs in learning how to use data to accomplish educational goals." The department also emphasized science, technology, engineering, and mathematics (STEM) projects through investments in five major areas: interventions, professional development, human capital, research, and implementation.

Grant Monitoring

The department monitors both programmatic and fiscal LEA plans. The department provides each LEA an annual program monitoring report, consisting of a self-assessment of

progress and accomplishments, which they are to fill out and return. Department staff conduct fiscal monitoring of LEAs every three years by examining LEA compliance with state and federal regulations.

In addition, in fiscal year 2013-2014, 10 vendors had expenditures that met the threshold that would require them to submit federal 1512 reports, and the state completed those reports on behalf of vendors. In addition to reporting expenditures as required through federal 1512 reporting requirements, the state also assigned a contract manager to all vendor contracts through RTTT who was responsible for maintaining regular contact with the vendor and ensuring that goods received met the contract requirements before payment was made to the vendor.

The department monitored RTTT sub-recipients in multiple ways:

1. Similar to vendors, the department generated quarterly expenditure reports to the federal government.

2. Project owners within the department ensured that each sub-recipient provided a high-quality program that met all deliverables and expectations.

3. The department's Internal Audit Division performed annual monitoring of all sub-recipients. Areas reviewed include school improvement grants and First to the Top.

Grant Expenditures

As of October 2014, the department had spent $220,030,216 of the state's 50% of the RTTT grant, with $30,340,394 remaining. According to a department official, although the RTTT grant ended in July 2014, the department has three months beyond this date to submit requests for payments. The department has also applied to the federal government and been approved for a no-cost extension for specific projects through June 2015 (LEAs could apply to the department for a no-cost extension as well). All remaining departmental RTTT grant funds are already dedicated to specific projects, with approved extensions to June 2015. Below is a breakdown of how the department had planned to spend the total RTTT grant:

Issue Area	Amount Allocated	Percentage of Total
Standards and assessments	$42,091,000	17%
Data systems to support instruction	$23,103,000	9%
Great teachers and leaders	$73,023,500	29%
Turning around lowest achieving schools	$77,803,000	31%
STEM	$20,942,000	8%
State success factors	$12,968,000	5%
TOTAL	$249,930,500	99%*

Source: Department of Education, RTTT Project Overview.
*Note: 1% of total RTTT funding has yet to be spent.

Department projects funded by the RTTT grant will fall into three main categories after the RTT grant elapses: they will either continue to be carried out by the department with other

resources, they will not continue, or they will continue but will be operated by a third party with external funding. The state currently plans to continue to execute the following projects beyond the RTT grant period:

- professional development on the Common Core State Standards;

- the supporting the Teacher Dashboards and P20 Data System;

- academic and data coaches for the CORE offices, hired as part of the Integrating Data to Improve Instruction Project;

- teacher and principal evaluation;

- the Achievement School District;

- the Teach Tennessee Program;

- the Teacher Preparation Program Report Card (run by the Tennessee Higher Education Commission); and

- the Save the Children Rural Literacy Project.

COMMON CORE AND PARCC ASSESSMENTS

Status of Common Core State Standards and Partnership for Readiness for College and Careers Assessments

Over the last few years, the Department of Education has implemented two significant academic changes: Common Core and the Partnership for Readiness for College and Careers (PARCC). According to the Executive Director of the State Board of Education and the Commissioner of Education, these changes were an effort to improve Tennessee's educational system. Based on assessments like the ACT and the National Assessment of Educational Progress, Tennessee consistently ranked near the bottom for education.

It is too soon to assess Common Core's impact on achievement, and during audit field work the department's work on the development of the PARCC assessment was discontinued due to legislative action. The following is a status update of each initiative, including the level of implementation and the amount of funding spent on each initiative to date.

Purpose of Common Core

According to the department, under the Common Core initiative, each participating state chooses its own curriculum, set of course activities, and teaching materials. While teachers must use established instructional strategies to implement the standards, they are not instructed how to teach their students. Rather, the standards establish the concepts students need to learn. Initially, 48 states and the District of Columbia participated in the Common Core initiative; however, as of

June 2014, three states have withdrawn their participation (South Carolina, Oklahoma, and Indiana).

The stated purpose of Common Core is to

- provide clear expectations aligned to the expectations of college and careers;

- promote consistency by ensuring all students, no matter where they live, are well prepared with the skills and knowledge necessary to collaborate and compete with their peers in the United States and abroad; and

- enable collaboration between states on a range of tools and policies, including the development of textbooks, digital media, and other teaching materials and the development and implementation of common comprehensive assessment systems to measure student performance and replace existing state testing systems.

Common Core Timeline

The Common Core Standards were created through a state-led initiative that can be traced back to a December 2004 report by the American Diploma Project, an independent, nonprofit education reform organization dedicated to work with states to raise student academic standards. According to this report, most high school graduates nationwide lacked basic skills that employers require, as well as the necessary skills to succeed in college. The report's findings began a discussion between several states that ultimately led the National Governors Association (NGA) and the Council of Chief State School Officers (CCSSO) to establish the Common Core initiative in 2008. Beginning in 2009, and with the assistance of representatives from states participating in the initiative, the NGA and CCSSO began to develop Common Core standards. After a period of accepting public feedback, the standards were finalized in June 2010.

Tennessee's involvement with the Common Core developed over time. According to the department, state officials created the Tennessee Diploma Project in 2007 to help align Tennessee's education standards with skills needed to succeed in education and in the workplace. At that time, Tennessee also joined 30 states working to align expectations for students as part of the American Diploma Project Network. In June 2009, then-Governor Phil Bredesen and then-Commissioner of Education Tim Webb joined the Common Core initiative.

Within a month of finalization of the Common Core standards, the Tennessee State Board of Education unanimously passed the standards on July 30, 2010. The standards were gradually phased into the next school years, with final implementation in academic year 2013-2014. From passage to final implementation, school districts implemented standards for the various academic components. During the 2012-2013 school year, school districts used the Common Core standards in math in grades three through eight, and about half of Tennessee school districts participated in a pilot program to use the standards in English language arts and literacy. The schedule by school year to phase in the standards was as follows:

- 2011-2012: math and English/language arts standards for kindergarten through second grade;

- 2012-2013: partial implementation of math for third through eighth grade; and

- 2013-2014: full implementation of math and English/language arts for third through eighth grade, as well as literacy for sixth through twelfth grade.

To facilitate the successful implementation of the standards, the department provided training to over 45,000 teachers, principals, and school leaders across the state. The department also provided optional instructional resources for teachers to share their experiences with the standards and learn from each other. Funding for this training was provided by Race to the Top funds.

Where Common Core is Today

The 2013-2014 school year marked the first year the CCSS standards for all academic components were fully used by schools to develop and provide course instruction for math, English/language arts and literacy. The 2014-2015 school year is the continuation of the full use of CCSS standards. No other academic components have been added. Additional training on the standards is provided to teachers at their option.

PARCC

To assess the impact of Common Core standards on student achievement, the department joined a consortium of 20 states to develop an assessment tool for kindergarten through 12th grade in math, English/language arts, and literacy. (The consortium has since decreased to 13 states due to member withdrawals.) In 2010, Tennessee became a founding member of the Partnership for Readiness for College and Careers (PARCC) assessment initiative, which aligned closely with the Common Core standards.

PARCC was scheduled to replace the Tennessee Comprehensive Assessment Program (TCAP) in assessing student achievement in math, reading, and writing in grades 3 through 11 beginning with the 2014-2015 school year. However, on May 19, 2014, Governor Haslam signed into law House Bill 1549, which delayed PARCC for at least one year and stipulated that TCAP is to be used during the 2014-2015 school year. The bill also requires the department to issue a request for proposals prior to the 2015-2016 school year to adopt and field test a new assessment instrument.

According to the department, prior to the withdrawal from PARCC, educators were involved throughout the development of the PARCC assessments and the related instructional and reporting tools. The PARCC initiative sought to

- build a pathway to college and career readiness for all students,

- create high-quality assessments that measure the full range of Common Core Standards,

- support educators in the classroom,

- make better use of technology in assessments, and

- advance accountability at all levels.

The PARCC assessment was designed to be administered to students online, requiring schools to have one computer for every six to seven students. However, because not all schools have the necessary technology, a paper-pencil backup option would have been available for at least the first year of administration of the test. To help address the technology needs of schools, Governor Haslam included a one-time expenditure of $51 million for technology in the 2013-2014 budget.

Cost of Common Core and PARCC

According to department officials, the funds to pay for the transition to Common Core came from Race to the Top funds provided by the U.S. Department of Education. The total cost associated with transitioning to Common Core for the 2012-2013 and 2013-2014 school years was $17,397,239, which was entirely funded by the federal award. The bulk of the funding was used to provide training to teachers.

According to department officials, the total PARCC costs for the same timeframe were $9,038,521. This included the cost of revising the writing assessment to align with Common Core and developing constructed response assessments, optional tests for districts to use to prepare students for taking the more rigorous PARCC assessment. All but approximately $50,000 of this sum was funded by the state.

In summary, Common Core and PARCC activities include

- training for the school districts and personnel as they transitioned to the new standards;

- development of Common Core State Standards aligned instructional and assessment resources;

- modifying the TCAP writing assessment to reflect the type of questions on the PARCC assessment; and

- moving the assessment online to allow students and schools to prepare for a technology-based assessment.

Status of the Basic Education Program

The Basic Education Program (BEP) was created by the Education Improvement Act of 1992 to fund schools in Tennessee. The formula consists of 45 components, most of which are based on the average daily enrollment of students. School districts are allotted BEP funds at the beginning of the school year based on their prior year average daily enrollment. Growth funds are distributed in the current year to LEAs whose enrollment has increased more than 2% over that of the prior year.

The BEP is composed of state and local funds, and the share for each school system is based on an equalization formula that is applied to the BEP. This equalization formula is the primary factor in determining how much of the BEP is supported by the state and how much is supported by the local district. The formula is driven largely by each county's property and sales tax bases. According to an example provided by the State Board of Education, "the state and local equalization shares for County System A would be the exact same state and local shares for City System A, within the same county. All local school systems are free to raise additional education dollars beyond the funds generated by the BEP."

The BEP has three major categories (instruction, classroom, and non-classroom), each of which is made up of separate components related to the basic needs of students, teachers, and administrators within a school system. BEP funds are divided into state and local shares for each of the three major categories.

As directed by Section 49-1-302, *Tennessee Code Annotated,* the State Board of Education created a BEP Review Committee to review the BEP components and to identify needed revisions, additions, or deletions to the formula. The committee includes the chairs of the Senate and House Education Committees; the Executive Director of the State Board of Education; the Commissioner of the Department of Education; the Comptroller of the Treasury; the Commissioner of Finance and Administration and a number of directors and CFOs of school districts. The committee is statutorily required to meet at least four times a year and to prepare an annual report, which is to contain identified recommendations or needed revisions to the formula and an analysis of instructional salary disparity among LEAs. The committee's last annual report was released in November 2013. Although the committee may make recommendations to the State Board of Education, final approval follows a long process, and the board may deny recommendations at any point. According to the Executive Director of the State Board of Education, only one recommendation has received final approval since 2007. The following steps must be followed prior to a recommendation being adopted:

1. the BEP Review Committee makes a recommendation;
2. the Commissioner of Education and the Commissioner of Finance and Administration recommend approval to the State Board of Education;

3. the State Board of Education approves the commissioners' recommendation;

4. the House and Senate Education Committees approve the recommendation as a bill;

5. both houses of the General Assembly pass the bill; and

6. the Governor signs the bill into law.

In January 2014, in an effort to bring a "fresh look at the formula" the Governor created the BEP Task Force, citing that education in Tennessee had changed since the last time the BEP was modified in 2007. Unlike the permanent BEP Review Committee, the BEP Task Force is ad hoc.

The BEP Task Force consists of 12 members (many of which are also on the BEP Review Committee), including the Commissioner of the Department of Education and the Comptroller of the Treasury. As of June 27, 2014, the task force met three times. Although it has not made any recommendations to change the current BEP formula, topics discussed include the state's budget status and potential alternatives for funding education in the state. The Governor requested the task force provide a report outlining its findings and recommendations by the end of 2014.

APPENDICES

APPENDIX 1
Title VI and Other Information

Title VI of the Civil Rights Act of 1964 states that "no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance."

The Tennessee Human Rights Commission (THRC) issues a report, *Tennessee Title VI Compliance Program* (available on its website), that details agencies' federal dollars received, Title VI complaints received, and THRC findings taken on an agency. According to the THRC's fiscal year 2013 report, the Department of Education's Title VI implementation plan was in compliance with all guidelines and requirements.

THRC received two complaints that it referred to the department. As of June 30, 2013, the complaints had not been resolved and were still open. The department also received seven complaints directly. THRC reported that all seven complaints have been closed.

The department received $1,165,116,700 in federal funding for fiscal year 2013 and an estimated $1,257,777,500 for fiscal year 2014.

See the next page for the department's staff ethnicity and gender demographics.

Department of Education and State Board of Education
Staff Ethnicity and Gender by Job Title
As of July 2014

| DESCRIPTION | GENDER | | ETHNICITY | | | | | | TOTAL |
	MALE	FEMALE	AMERICAN INDIAN	ASIAN	BLACK	HISPANIC	WHITE	OTHER ETHNICITY	
ACCOUNT CLERK-NE	0	4	0	0	1	0	3	0	4
ACCOUNTANT 2	1	0	0	0	0	0	1	0	1
ACCOUNTANT 3	0	1	0	0	1	0	0	0	1
ACCOUNTING MANAGER	0	1	0	0	1	0	0	0	1
ACCOUNTING TECHNICIAN 1	3	3	0	0	4	0	2	0	6
ACCOUNTING TECHNICIAN 1-NE	0	1	0	0	0	0	1	0	1
ACCOUNTING TECHNICIAN 2	1	4	0	0	1	0	4	0	5
ACCOUNTING TECHNICIAN 2-NE	0	4	0	0	1	0	3	0	4
ADMIN ANALYST 2-NE	1	0	0	0	0	0	1	0	1
ADMIN ASSISTANT 1	0	2	0	0	1	0	1	0	2
ADMIN ASSISTANT 2	0	1	0	0	1	0	0	0	1
ADMIN SECRETARY	0	17	0	0	5	0	12	0	17
ADMIN SECRETARY-NE	0	3	0	0	1	0	2	0	3
ADMIN SERVICES ASSISTANT 2	0	21	0	0	9	0	12	0	21
ADMIN SERVICES ASSISTANT 2-NE	3	3	0	0	1	0	5	0	6
ADMIN SERVICES ASSISTANT 3	0	5	0	0	1	0	4	0	5
ADMIN SERVICES ASSISTANT 3-NE	1	1	0	0	0	0	2	0	2
ADMIN SERVICES ASSISTANT 4	0	5	0	0	1	0	4	0	5
ADMIN SERVICES ASSISTANT 4-NE	1	1	0	0	0	0	2	0	2
ADMIN SERVICES ASSISTANT 5	1	1	0	0	0	0	2	0	2
ADMIN SERVICES MANAGER	2	4	0	0	0	0	6	0	6
ASD HOME OFFICE	0	1	0	0	0	0	1	0	1
ASSISTANT COMMISSIONER 1	0	1	0	0	0	0	1	0	1
ASSISTANT COMMISSIONER 2	4	2	0	0	1	0	5	0	6
ASSOCIATE DIRECTOR-TIF	0	1	0	0	0	0	1	0	1
AUDIT DIRECTOR 2	1	0	0	0	0	0	1	0	1
AUDITOR 2	1	0	0	0	1	0	0	0	1
AUDITOR 3	1	1	0	0	1	0	1	0	2
AUDITOR 4	1	0	0	0	0	0	1	0	1
BAKER-NE	0	2	0	1	0	0	1	0	2

DESCRIPTION	GENDER		ETHNICITY						TOTAL
	MALE	FEMALE	AMERICAN INDIAN	ASIAN	BLACK	HISPANIC	WHITE	OTHER ETHNICITY	
BOARD MEMBER	7	3	0	0	1	0	9	0	10
BOILER OPERATOR 1-NE	4	0	0	0	0	0	4	0	4
BUDGET ANALYST 2	1	0	0	1	0	0	0	0	1
BUILDING MAINTENANCE WKR 1-NE	1	0	0	0	0	0	1	0	1
BUILDING MAINTENANCE WKR 2-NE	13	0	0	0	1	0	12	0	13
BUILDING MAINTENANCE WKR 3-NE	4	0	0	0	0	0	4	0	4
CHILD CARE PROG EVALUATOR 2	2	16	0	0	3	0	15	0	18
CLERK 2	1	0	0	0	0	0	1	0	1
CLERK 2-NE	1	1	0	0	1	0	1	0	2
CLERK 3-NE	0	1	0	0	0	0	1	0	1
COMMISSIONER 3	1	0	0	0	0	0	1	0	1
COOK 1-NE	0	8	0	0	3	0	5	0	8
COOK 2-NE	0	5	0	0	1	0	4	0	5
COT-PROPERTY OFFICER 1	1	0	0	0	0	0	1	0	1
CUSTODIAL WORKER 1-NE	8	8	0	0	4	0	12	0	16
CUSTODIAL WORKER SUPV 1-NE	1	0	0	0	1	0	0	0	1
CUSTODIAL WORKER SUPV 2-NE	1	0	0	0	0	0	1	0	1
DATABASE ADMINISTRATOR 3	1	0	0	0	0	0	1	0	1
DEPUTY COMMISSIONER 2	0	1	0	0	0	0	1	0	1
DIRECTOR-FIRST TO THE TOP	0	1	0	0	0	0	1	0	1
DIRECTOR-SIG	1	0	0	0	1	0	0	0	1
DIRECTOR-TEACHER E&Q	1	0	0	0	0	0	1	0	1
DIRECTOR-TIF	0	1	0	0	1	0	0	0	1
EDUC CONS 1 PER SPECIALTY	1	6	0	0	0	0	7	0	7
EDUC CONS 1 VOCATIONAL	1	1	0	0	0	0	2	0	2
EDUC CONSOL COMPLIANCE CONS	1	4	0	0	1	0	4	0	5
EDUC CONSOL FINANCE CONSULTANT	4	2	0	0	0	0	6	0	6
EDUC CONSULTANT 1	0	2	0	0	1	0	1	0	2
EDUC CONSULTANT 2	8	28	1	0	3	2	30	0	36
EDUC CONSULTANT 3	12	25	0	0	3	0	33	1	37
EDUC CONSULTANT 4	5	19	0	1	2	0	21	0	24
EDUC DISTRICT FACILITATOR	5	5	0	0	1	0	9	0	10

	GENDER		ETHNICITY						
DESCRIPTION	**MALE**	**FEMALE**	**AMERICAN INDIAN**	**ASIAN**	**BLACK**	**HISPANIC**	**WHITE**	**OTHER ETHNICITY**	**TOTAL**
EDUC PROGRAM ADMINISTRATOR 1	1	2	0	0	1	0	2	0	3
EDUC PROGRAM ADMINISTRATOR 2	3	7	1	0	1	0	8	0	10
EDUC RGNL ACADEMIC CONSULTANT	0	22	0	0	1	0	21	0	22
EDUC-CHIEF OF STAFF	0	1	0	0	0	0	0	1	1
EDUCATION STUDENT DATA ADMIN	1	1	0	0	0	0	2	0	2
EESI EXECUTIVE DIRECTOR	1	0	0	0	0	0	1	0	1
ELECTRONICS TECHNICIAN 2-NE	1	0	0	0	0	0	1	0	1
EVALUATION DIRECTOR-FTTT	1	1	0	0	0	0	2	0	2
EXECUTIVE ADMIN ASSISTANT 1	4	8	0	0	1	0	11	0	12
EXECUTIVE ADMIN ASSISTANT 2	5	3	0	0	2	0	6	0	8
EXECUTIVE ADMIN ASSISTANT 3	3	8	0	0	2	0	9	0	11
EXECUTIVE SECRETARY 1	0	1	0	0	0	0	1	0	1
EXECUTIVE SECRETARY 2	0	1	0	0	0	0	1	0	1
FACS MANAGER 1-NE	2	0	0	0	0	0	2	0	2
FACS SUPERVISOR-NE	1	0	0	0	0	0	1	0	1
FIELD SUPERVISOR 1	0	7	0	0	1	0	6	0	7
FIELD SUPERVISOR 2	0	6	0	0	0	0	6	0	6
FISCAL DIRECTOR 1	1	0	0	1	0	0	0	0	1
FISCAL DIRECTOR 2	1	1	0	0	1	0	1	0	2
FISCAL DIRECTOR 3	1	2	0	0	0	0	3	0	3
FOOD SERVICE MANAGER 1-NE	0	1	0	0	0	0	1	0	1
FOOD SERVICE MANAGER 2-NE	0	3	0	0	1	0	2	0	3
FOOD SERVICE SUPERVISOR 2-NE	0	2	0	0	0	0	2	0	2
FOOD SERVICE WORKER-NE	0	6	0	0	1	0	4	1	6
GENERAL COUNSEL 2	0	1	0	0	0	0	1	0	1
GRANTS PROGRAM MANAGER	0	1	0	0	0	0	1	0	1
GROUNDS WORKER 1-NE	2	0	0	0	0	0	2	0	2
GROUNDS WORKER 2-NE	1	0	0	0	0	1	0	0	1
HR ANALYST 3	0	1	0	0	0	0	1	0	1
HR DIRECTOR 3	0	1	0	0	0	0	1	0	1
HR MANAGER 1	0	1	0	0	0	0	1	0	1
INFO RESOURCE SUPPORT SPEC 3	2	1	0	0	0	0	3	0	3
INFO RESOURCE SUPPORT SPEC 4	2	0	0	1	0	0	1	0	2

DESCRIPTION	GENDER		ETHNICITY						
	MALE	FEMALE	AMERICAN INDIAN	ASIAN	BLACK	HISPANIC	WHITE	OTHER ETHNICITY	TOTAL
INFORMATION SYSTEMS ANA 4	0	1	0	0	0	0	1	0	1
INFORMATION SYSTEMS DIRECTOR 1	1	0	0	0	0	0	1	0	1
INFORMATION SYSTEMS DIRECTOR 2	1	0	0	0	0	0	1	0	1
INFORMATION SYSTEMS DIRECTOR 3	0	1	0	0	0	0	1	0	1
INFORMATION SYSTEMS MANAGER 1	1	0	0	0	0	0	1	0	1
INFORMATION SYSTEMS MANAGER 2	0	1	0	0	0	0	1	0	1
INFORMATION SYSTEMS MANAGER 3	1	1	0	0	1	0	1	0	2
LEGAL ASSISTANT	0	1	0	0	1	0	0	0	1
LICENSED PRACTICAL NURSE 2-NE	0	5	0	0	2	0	3	0	5
LICENSED PRACTICAL NURSE 3	0	1	0	0	0	0	1	0	1
LICENSED PRACTICAL NURSE 3-NE	0	1	0	0	1	0	0	0	1
MEDIA PRODUCER/DIRECTOR	1	0	0	0	0	0	1	0	1
MH/IDD PROGRAM DIRECTOR	0	1	0	0	0	0	1	0	1
NETWORK TECH SPECIALIST 3	0	1	0	0	0	0	1	0	1
OCC THERAPIST-NE	0	1	0	0	0	0	1	0	1
OFFICE AUTOMATION SPECIALIST	2	7	0	0	2	0	7	0	9
PHYSICIAN-NE	3	0	0	2	0	0	1	0	3
POLICY ADVISOR-FTTT	0	1	0	0	0	0	1	0	1
PROCUREMENT OFFICER 2	1	0	0	0	0	0	1	0	1
PROCUREMENT OFFICER 2-NE	2	0	0	0	0	0	2	0	2
PROGRAM ADVISOR-1ST TO THE TOP	2	0	0	0	0	0	2	0	2
PROGRAM MONITOR 2	0	1	0	0	0	0	1	0	1
PROGRAMMER/ ANALYST 3	0	1	0	0	0	0	1	0	1
PROGRAMMER/ ANALYST 4	1	2	0	0	1	0	2	0	3
PROPERTY REPRESENTATIVE 2	1	0	0	0	1	0	0	0	1
PSYCHOLOGIST-NE	1	0	0	0	0	0	1	0	1
RECREATION SPECIALIST 1-NE	0	1	0	0	0	0	1	0	1
REGISTERED NURSE 2-NE	0	9	0	0	0	0	9	0	9
REGISTERED NURSE 4-NE	0	3	0	0	0	0	3	0	3
SCHOOL NUTRITION CONSULTANT	2	3	0	0	0	0	5	0	5
SECRETARY	0	2	0	0	0	0	2	0	2
SECRETARY-NE	0	9	0	0	0	0	9	0	9

DESCRIPTION	GENDER		ETHNICITY						TOTAL
	MALE	FEMALE	AMERICAN INDIAN	ASIAN	BLACK	HISPANIC	WHITE	OTHER ETHNICITY	
SOCIAL COUNSELOR 1	0	1	0	0	0	0	1	0	1
SOCIAL COUNSELOR 2	6	121	0	1	30	4	92	0	127
SOCIAL SERVICES DIRECTOR-NE	0	1	0	0	1	0	0	0	1
SPECIAL SCHOOLS AUDIOLOGIST	0	4	0	0	0	0	4	0	4
SPECIAL SCHOOLS EDUC ASST	3	39	0	0	11	2	28	1	42
SPECIAL SCHOOLS GUIDANCE COUNS	1	3	0	0	2	0	2	0	4
SPECIAL SCHOOLS INSTRUCTION DI	0	1	0	0	0	0	1	0	1
SPECIAL SCHOOLS PRINCIPAL	0	2	0	0	0	0	2	0	2
SPECIAL SCHOOLS SUPERINTENDENT	3	0	0	0	0	0	3	0	3
SPECIAL SCHOOLS TEACHER	52	146	0	1	5	1	191	0	198
SPECIAL SCHOOLS TECH DIR	2	0	0	0	0	0	2	0	2
STATE BOARD OF EDUC EXEC DIR	1	0	0	0	0	0	1	0	1
STATISTICAL RESEARCH SPEC	1	1	0	1	0	0	1	0	2
STOREKEEPER 1-NE	1	1	1	0	0	0	1	0	2
STORES CLERK-NE	2	0	0	0	1	0	1	0	2
TELEPHONE OPERATOR 1-NE	0	1	0	0	1	0	0	0	1
TELEVISION ART DIRECTOR-NE	0	1	0	0	0	0	1	0	1
TRAINING OFFICER 1	0	2	0	0	0	0	2	0	2
TRAINING OFFICER 2	0	1	0	0	0	0	1	0	1
VEHICLE OPERATOR-NE	0	1	0	0	0	0	1	0	1
WEBSITE DEVELOPER 2	0	1	0	0	0	0	1	0	1
YOUTH SERVICE WORKER 1-NE	29	50	0	1	17	0	61	0	79
YOUTH SERVICE WORKER 2-NE	13	19	0	0	4	0	28	0	32
YOUTH SERVICE WORKER SUPV 1-NE	10	12	0	0	3	0	19	0	22
YOUTH SERVICE WORKER SUPV 2-NE	2	5	0	0	0	0	7	0	7
TOTAL	287	783	3	11	156	10	886	4	1,070

Performance Measures Information

As stated in the Tennessee Governmental Accountability Act of 2013, "accountability in program performance is vital to effective and efficient delivery of government services, and to maintain public confidence and trust in government." In accordance with this act, all executive branch state agencies are required to submit annually to the Department of Finance and Administration a strategic plan and program performance measures. The Department of Education's priority goals, as reported for September 2014 on the Governor's Customer Focused Government Monthly Results website are as follows:

Performance Standards and Measures

Performance Standard 1: Ensure growth of 3-5 percentage points in each TCAP grade and subject level over last year's performance, and progress in closing achievement gaps along lines of race, income, language status, and special education status.

Purpose of the Goal: Necessary to ultimately better serve, students, parents, and the state.

Measuring the Goal:

	Baseline	Current	Target
1. Ensure strong start to school year and focus on rigorous standards and strong instruction through CORE offices (Oct. 2014). 2. Early observation of level 1 teachers and level 1 schools (Nov. 2014). 3. Meet goals around school team training series, RT12 and administrator evaluation described above (May 2014).	*	*	*

*Note: Department left blank.

Performance Standard 2: Ensure new administrator evaluation system is being implemented with fidelity in districts.

Purpose of the Goal: School leaders are key to all of the other work that takes place in K-12 education, and ensuring they get feedback and support through the new evaluation system is key to meeting student achievement goals. This goal will help us support educators and ultimately better serve students.

Measuring the Goal:

	Baseline	Current	Target
Percent of districts entering administrator evaluation data at end of first semester	0%	-	90%

Performance Standard 3: Ensure universal screener administration and early intervention in districts through Response to Instruction and Intervention (RT12) framework.

Purpose of the Goal: Ensuring early intervention for struggling students is key to meeting both overall student achievement and gap closure goals, to ultimately better serve students.

Measuring the Goal:

	Baseline	**Current**	**Target**
TBD	TBD	-	TBD

Performance Standard 4 : Provide high quality training to educators via School Team Training Series.

Purpose of Goal: Continuing to build the capacity of educators is one of our greatest levers towards meeting our vision and student achievement goals. This goal will help us support educators and ultimately better serve students.

Measuring the Goal:

	Baseline	**Current**	**Target**
Percent of schools that participated in summer training that are redelivering content to their schools	0%	-	75%

We did not audit, sample, or test this information, the procedures used to determine the information, or the controls over the validity of the information.

Budget Information

Revenues by Source
Fiscal Year Ended June 30, 2014

Source	*Amount*	*Percent of Total*
State	$4,359,040,100	77%
Federal	1,257,777,500	22%
Other	84,649,300	1%
Total Revenue	**$5,701,466,900**	**100%**

Source: The Budget Fiscal Year 2014-2015.

Expenditures by Account
Fiscal Year Ended June 30, 2014

Account	*Amount*	*Percent of Total*
Payroll	$103,957,600	2%
Operational	5,597,509,300	98%
Total Revenues	**$5,701,466,900**	**100%**

Source: The Budget Fiscal Year 2014-2015.

Budget and Anticipated Revenues
Fiscal Year Ended June 30, 2015

Source	*Amount*	*Percent of Total*
State	$4,415,521,100	80%
Federal	1,065,843,700	19%
Other	79,296,200	1%
Total Revenue	**$5,560,661,000**	**100%**

Source: The Budget Fiscal Year 2014-2015.

Fiscal Year 2013 Single Audit Findings Pertaining to the Department of Education

As noted in the prior two audits, the department continues to not always maintain proper information systems security controls, increasing the risk of fraudulent activity

Finding

Based on our testwork, the Department of Education's staff continue to not always maintain proper information systems security, resulting in increased risk of fraudulent activity. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department management with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Commissioner should ensure that these conditions are remedied through procedures that encompass all aspects of effective access controls. The Commissioner should ensure that the risks associated with this finding are adequately identified and assessed in the department's documented risk assessment. The Commissioner 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. The department recognizes the importance of strong information system controls. Through its internal task force on information system controls and other measures, the department will continue to strive to maintain strong information system controls.

The Achievement School District inappropriately charged the School Improvement Grants program for expenditures incurred before the award was effective and failed to adequately review invoices paid to Charter Management Organizations, resulting in federal questioned costs of $193,241

Finding

The Achievement School District (ASD), an organizational unit of the Tennessee Department of Education that temporarily operates low-achieving schools, charged the School Improvement Grants program for services it received before the effective date of the federal

grant award. In addition, ASD's financial staff failed to adequately review invoices prior to paying charter management organizations for services they provided which were also charged to the School Improvement Grants program, resulting in federal questioned costs of $193,241.

Achievement School District

Created by Section 49-1-614, *Tennessee Code Annotated*, ASD is a state takeover school district. According to Section 49-1-614, ASD will operate as a local educational agency (LEA), where persistently low-achieving schools are removed from their current LEA and placed under ASD for a period of not less than five years. ASD began its first year of operation during the 2012 – 2013 school year. During the fiscal year 2013, the district had six schools under its jurisdiction: three schools were managed directly by ASD and three schools were managed by nonprofit charter management organizations (CMOs) on contract with ASD. The CMOs submitted Request for Reimbursement Invoices (invoices) to ASD based on incurred expenditures to receive payment for services performed to manage the low-performing schools.

School Improvement Grants

The School Improvement Grants (SIG) program is federally funded by the United States Department of Education to disburse funds to priority schools, which are the lowest-performing 5 percent of all schools in Tennessee in terms of academic achievement. On April 30, 2012, the Tennessee Department of Education awarded the Achievement School District an additional $3,885,886 in School Improvement Grants that were authorized by the American Recovery and Reinvestment Act.

From a population of 399 transactions, totaling $20,965,456.77, we tested a sample of 60 expenditure transactions, totaling $2,416,608.91. During our audit, we found the following issues relating to the Achievement School District and the School Improvement Grants.

ASD Inappropriately Charged School Improvement Grants

Of the 60 expenditure transactions tested, we found that ASD charged expenditures from one transaction to the School Improvement Grants before the period of availability became effective. The ASD paid for services during the period March 1, 2012, through June 30, 2012, and charged all expenditures for this period to the grant. However, ASD was not awarded School Improvement Grant funds until April 30, 2012; therefore, expenditures incurred between March 1, 2012, and April 30, 2012, totaling $126,905 were not eligible for federal reimbursement under the School Improvement Grants and are questioned costs. ASD originally charged these expenditures to the Race to the Top program, but then its financial staff reclassified the expenditures and charged the School Improvement Grants program improperly. After we brought this to its attention, ASD's Chief Financial Officer reversed this transaction on December 31, 2013, and charged the expenditures to the Race to the Top program, which was allowable.

ASD Failed to Adequately Review CMO Invoices

Of the 60 expenditures we tested above, we also discovered issues relating to 3 invoices paid to the CMOs. Due to the problems we identified for these three invoices, we expanded our

testwork to review all 12 invoices submitted by CMOs and paid by ASD, totaling $693,831.34 during fiscal year 2013. We discussed ASD's process of reviewing CMO invoices prior to payment with ASD's Accounting Manager. According to the Accounting Manager, before approving CMO invoices, ASD's Public Grants Manager is responsible for reviewing the invoices by

- verifying that the activity listed on the invoice met program requirements,

- ensuring the CMO attached adequate supporting documentation for the charges listed to the invoice, and

- ensuring the invoice's mathematical accuracy.

Before entering the invoice into Edison, ASD's Accounts Payable Clerk is responsible for verifying that the Public Grants Manager has approved the invoice and that the invoice amount requested is within budget. However, during our review of the 12 invoices charged to the SIG program, we found that the ASD Accounting Manager and Accounts Payable Clerk processed 5 invoices, totaling $477,166.14, without the documented approval of the Public Grants Manager.

Even though Public Grants Manager did not document her review of the CMO invoices, they charged the School Improvement Grants for a total of $66,336.18 in unsupported expenditures, resulting in questioned costs. Details of the issues we found during our review are listed in the chart below.

CMO	Issue	Expenditure Type	Invoice Date	Questioned Costs
1	CMO did not provide all supporting documentation for 1 invoice	Personnel Costs	1/14/2013	$ 147.88
	1 invoice contained duplicate charges	Textbooks	9/7/2012	1,245.00
	1 invoice contained mathematical errors	Personnel Costs	9/7/2012	80.00
2	Charges on 3 invoices did not match supporting documentation	Salaries Miscalculation	12/28/2012	1.98
			3/28/2013	4.37
			6/7/2013	406.38
	2 invoices contained duplicate charges	Personnel Costs	11/8/2012	6,490.84
			12/28/2012	12,981.67
3	CMO did not provide all supporting documentation for 2 invoices	Travel Costs	8/24/2012	47.00
		Personnel Costs	12/31/2012	19,461.57
	Charges on 3 invoices did not match supporting documentation	Benefits Overpayment	8/24/2012	5,933.27
		Travel Costs Overpayment	8/24/2012	20.00
		Benefits Overpayment	12/31/2012	19,516.22
	Total			**$ 66,336.18**

In addition, we found that on two invoices, a CMO billed ASD for expenditures before the vendors were paid. The vendors were paid between 15 to 110 days after receiving funds from ASD. According to Title 34, *Code of Federal Regulations*, Section 80.20(b)(7),

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be

followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency… Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

To determine the department's procedures to minimize the time lapse in cases of advance payments to local school districts, we spoke to the department's Fiscal Director, who stated that local school districts could request reimbursement for obligations prior to their actual disbursement of cash. However, they are to settle their obligations to their vendors within 72 hours.

During the audit, we were told that ASD experienced high turnover in its Public Grants Manager position during the fiscal year. We also determined that when the position was vacant, no other employee assumed the role of reviewing and approving invoices in order to mitigate the risk of paying inaccurate, unsupported, or fraudulent invoices. By not ensuring that invoices are properly reviewed, approved, and adequately supported, ASD runs the risk of paying CMOs for activities that are not allowed under federal program requirements.

Given the problems identified during our testwork, we also reviewed the department's risk assessment. Management did not identify and assess any risks related to the Achievement School District in its risk assessment.

Recommendation

The Commissioner and the Superintendent of the Achievement School District should take immediate action to ensure that ASD's expenditures which are charged to federal programs are properly reviewed and supported. As part of this corrective action, the Commissioner and Superintendent should

- ensure funding sources are authorized before incurring expenditures that will charged to those sources;

- ensure ASD's financial staff thoroughly document its review all invoices from charter management organizations to ensure the charges are adequately supported prior to paying the invoices; and

- ensure charter management organizations promptly pay their vendors in accordance with the department's established procedures.

The Commissioner should also consider a monitoring review of ASD to ensure that the issues noted in this finding are adequately addressed. In addition, management should assess the risks relating to the ASD and ensure that the risks noted in this finding and mitigating controls are included in the department's annual risk assessment.

We concur.

ASD Inappropriately Charged School Improvement Grants

For the expenditures charged to the SIG grant prior to the begin date of the award and that are questioned in the audit, as corrective action, the ASD moved the expenditures to its Race to the Top award, for which they were allowable costs. Thus, the $126,905 in questioned costs cited in this section of the finding has been fully resolved. The ASD's current financial team has the requisite knowledge and skills to ensure funding sources are authorized before incurring expenditures that will be charged to those sources.

ASD Failed to Adequately Review CMO Invoices

The ASD has implemented corrective action and now requires Charter Management Organizations (CMOs) to submit detailed supporting documentation with reimbursement requests. The ASD reviews the supporting documentation and reconciles it to the reimbursement requests prior to releasing funds to the CMOs. This process will ensure that CMOs bill based on actual costs incurred and that payments to CMOs are on a reimbursement basis and there is no advance of funds. For the $66,336 in questioned costs cited in this section of the finding, the ASD will require the CMOs to pay back these funds.

The Tennessee Department of Education did not ensure that payroll expenditures charged to federal awards were supported by adequate documentation and did not ensure all payroll expenditures were charged to federal awards in accordance with federal requirements, resulting in federal questioned costs of $26,452.78

Finding

As noted in the prior audit, the Tennessee Department of Education (TDOE) did not adhere to federal requirements prescribed by the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and the United States Department of Education for documenting and charging payroll expenditures to various federal awards. Management stated they concurred with the finding. They have initiated corrective action and have made improvements to the time and effort documentation process during fiscal year 2013, including revising the Personnel Activity Report (PAR) forms and the semi-annual certifications to meet federal requirements; discontinuing the approved substitute method previously used by the Centers for Regional Excellence (CORE) offices; and conducting training for department personnel. Despite these improvements, the department still did not ensure that payroll expenditures were adequately supported and charged based on the captured time and effort documentation.

OMB Circular A-87, Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when payroll expenditures are charged to federal awards.

Specifically, employees that work solely on one federal award (single cost objective employees) must prepare certifications that meet federal requirements and must prepare certifications at least semi-annually. Employees that work on a federal award and on other federal or state awards and activities (multiple cost objective employees) must prepare personnel activity reports (or equivalent documentation) that meet certain federal requirements and must prepare PARs at least monthly. TDOE has a process by which it consolidates administrative program funds originally authorized by the Elementary and Secondary Education Act of 1965 (ESEA). The department consolidates these funds to administer various ESEA programs (for example, English Language Acquisition State Grants and Improving Teacher Quality State Grants).

We reviewed a population of 61 TDOE employees whose payroll expenditures, totaling $1,188,599.82, were fully or partially funded by consolidated state administrative funds and then charged to federal programs. In order to determine whether the payroll expenditures charged to the appropriate federal program and were supported by adequate documentation, we compared the funding sources the department used to compensate the employees to the department's time and effort documentation. Based on our review, we found the issues noted below.

Payroll Expenditures Not Adequately Documented

Based on our review of 61 employees' time and effort documentation, we found that payroll expenditures for employees of the Achievement School District, an organization unit of TDOE, were not properly documented for single cost objective employees and multiple cost objective employees. Without proper documentation, the department cannot ensure it charged the correct program during the specified time period.

- For 4 employees, the semi-annual certification for the period January 1, 2013, through June 30, 2013, incorrectly listed 2012 as the year.

- The former Public Grants Manager did not sign her PARs for the months of July 2012, through September 2012; and January 2013. Her supervisor improperly signed the PARs on the Public Grants Manager's behalf. OMB Circular A-87 states that PARs "must be signed by the employee."

- One employee completed the wrong type of time and effort documentation. During fiscal year 2013, she devoted a portion of her time to a federal program; her remaining time was devoted to state-funded activities. For January 1, 2013, through June 30, 2013, the teacher completed a semi-annual certification, despite the fact that she worked on multiple cost objectives.

According to the current Public Grants Manager, she did not have guidance on the correct documentation procedures to ensure ASD employees provided the appropriate documentation.

Payroll Expenditures Incorrectly Charged to Federal Programs

Of the 61 employees' payroll expenditures we reviewed, payroll expenditures for 3 employees were improperly charged to federal grants. Based on the time and effort documentation we reviewed, the department's fiscal staff did not reclassify the payroll expenditures of employees who worked on non-federal program activities and improperly

charged their time to federal grants, resulting in $14,923.72 in federal questioned costs. After we brought these issues to the attention of the Fiscal Director, she reversed the expenditures below and charged them to state revenue sources on November 30, 2013, and corrected the federal billing.

Employee #	Federal Program	CFDA	Federal Questioned Costs
1	Title I Grants to Local Educational Agencies	84.010	$6,221.01
	State Administrative Expenses for Child Nutrition	10.560	3,113.61
	Special Education Grants to States	84.027	3,113.55
2	Title I Grants to Local Educational Agencies	84.010	411.81
3	School Improvement Grants	84.388	2,063.74
Total			**$14,923.72**

In addition, payroll expenditures for 5 employees were charged to the incorrect federal program. For all five employees, payroll was charged to the wrong federal program because program staff did not provide fiscal staff with enough time and effort information for these employees to charge the correct program, resulting in $11,529.06 in federal questioned costs. After we brought these issues to the attention of the Fiscal Director, she reversed all the expenditures below and charged the correct federal program on December 5, 2013, and corrected the federal billing.

Employee #	Federal Questioned Costs	Federal Program Billed in Error	CFDA	Federal Program That Should Have Billed	CFDA
1	$1,439.91	Education of Homeless Children and Youth	84.196	Title I Grants to Local Educational Agencies (LEAs)	84.010
2	4,089.54	Title I Grants to LEAs ($2,044.77)	84.010	Race to the Top Incentive Grants ($4,089.54)	84.395
		School Improvement Grants, ARRA ($2,044.77)	84.388		
3	2,336.02	Title I Grants to LEAs	84.010	Improving Teacher Quality State Grants	84.367
4	2,237.30	Title I Grants to LEAs	84.010	Teachers Incentive Fund	84.374
5	1,426.29	School Improvement Grants, ARRA	84.388	Improving Teacher Quality State Grants	84.367
Total	**$11,529.06**				

According to the Fiscal Director, the issues we noted were an oversight. Although the department has a process to identify these issues and correct them if they occur, it could improve communication between fiscal staff and program staff, which would help obtain accurate payroll information.

When time and effort is not properly documented in accordance with federal requirements, it increases the risk that federal funds will be charged for services not performed. We reviewed management's annual risk assessment and determined that management did address the risk that semi-annual certifications or PARs will not be prepared to support salary/benefit costs; however, management did not address the risk that payroll will not be properly charged in accordance with federal requirements.

Recommendation

The Commissioner of the Tennessee Department of Education and the Superintendent of the Achievement School District should ensure that payroll expenditures charged by staff to federal awards are supported by timely, adequate documentation prepared in accordance with federal requirements. Additionally, the Commissioner and Superintendent should ensure that program leaders and the Public Grants Manager are performing a prompt and adequate review of the time and effort documentation and obtaining corrections when necessary.

Finally, the Commissioner should ensure that the department's annual risk assessment is updated to reflect any new controls the department adds to the time and effort documentation process.

Management's Comment

We concur. Compliance with federal time and effort reporting requirements is a high priority in the department. As noted in the finding, since the last audit, the Department of Education has made improvements to its controls and processes, including revising and standardizing personnel activity report forms and the semi-annual certifications, discontinuing the substitute method for allocating compensation for administrative staff in regional offices, and conducting extensive training for staff. The department has worked to improve the tracking of journal entries to ensure adjustments to payroll are prepared and submitted when needed.