

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
222 3RD AVENUE NORTH, SUITE 650
NASHVILLE, TN 37201

August 13, 2007

Dr. Pedro E. Garcia
Metropolitan Nashville Public Schools
2601 Bransford Ave.
Nashville, TN 37204

Dear Dr. Garcia:

Please find attached the final Grants Monitoring Report for the Metropolitan Nashville Public Schools. This report explains the results of our review of a selected group of federal and state grants to Metro Nashville Public Schools for the fiscal year ended June 30, 2006. Staff from the Office of Financial Accountability conducted the fieldwork for this review from February 21st, through April 24th 2007. You previously reviewed and responded to the preliminary report issued on June 27th. Your responses to that report have been incorporated into this final report.

We appreciate the staffs' cooperation and assistance provided us during the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom

Fred Adom, CPA
Director

cc: David L. Manning, Director of Finance
Mary Martin, MNPS Grants Office
Kay Morris, MNPS Grants Office
Talia Lomax-O'dneal, Deputy Director of Finance
Don Dodson, Audit Manager
Kim McDonald, Chief Accountant
Kevin Brown, Office of Financial Accountability
Bill Walker, Office of Financial Accountability
Bryan Gleason, Office of Financial Accountability



Metropolitan Government of Nashville and Davidson County

◆ Grants Monitoring Report of ◆

222 3rd Ave. N.
Suite 650
Nashville, TN 37201

615-862-6170 office
615-862-6179 fax

www.nashville.gov/finance

Metropolitan Nashville Public Schools



Issued by



Office of Financial Accountability

August 13, 2007

Fred Adom, CPA
Director

Auditors:
Kevin Brown
Bill Walker, CPA
Bryan Gleason

Our Vision: To be excellent and proficient in monitoring and management services.

MONITORING REPORT
FOR THE
METROPOLITAN NASHVILLE PUBLIC SCHOOLS

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OBJECTIVES, SCOPE AND METHODOLOGY

The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a procurement monitoring review for the Metropolitan Nashville Public Schools (hereinafter referred to as “MNPS” or “agency”). The OFA is charged with the responsibility of monitoring the prompt pay performance, delegated purchasing authority, and purchasing card activity for the departments of the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The OFA is also responsible for monitoring the Federal and State grants to Metro departments and to nonprofit organizations receiving direct appropriations from the Metro Council.

Overview

The Metropolitan Nashville Public Schools (MNPS) system is a vast educational system that has set its goal at equipping all students with the knowledge and skills necessary for today’s society. In its efforts to become “the top performing school district in the nation,” the goals of MNPS include governing and managing the school system by focusing on results, managing fiscal and physical resources effectively, and maximizing each student’s learning to eliminate achievement disparity among the various student groups.

The MNPS staff is comprised of approximately 9,869 certified and support staff, making it the second largest employer in the county and the fourth largest in Tennessee. The MNPS serves more than 74,000 students from throughout the county’s 520 square miles, making MNPS the 49th largest urban school district in the nation. In 2006, MNPS was comprised of 133 schools with the following breakdown: 74 elementary schools, 35 middle schools, 11 senior high schools, 4 magnet schools, 3 special education schools, 2 charter schools, and 4 alternative schools. The MNPS has an operating budget in excess of \$563,000,000.

The MNPS manages over 100 grants with overlapping grant periods. We selected and reviewed 15 grants with total financial awards of over \$42 million. The 15 grants reviewed represent only 14 percent of the total Metro Schools grants but over forty (40%) percent of the dollar value of total grant awards to the Metro Schools. The grants reviewed included the following:

IDEA Grant (Silver, Pre-School, Part B)

The MNPS received IDEA grant funds for the fiscal years 2005 and 2006 in the amounts of \$16,110,819 and \$615,022 respectively from the Tennessee Department of Education. The IDEA program provides additional funding for children with disabilities. The majority of funding received by MNPS was used to help pay for the cost of special education teachers. The program segregates activities for preschool children and children ages 6 and up. Under the IDEA grant programs, the OFA tested 40 invoices and/or charges via journal entries in the amount of \$238,352.00 representing approximately 2% of grant funds.

TITLE II, Part D

The purpose for the Title II, Part D grant award was provided for the purpose of technology enhancement. The funds were too divided amongst both public and private schools. The allocation of funds was divided equally respective amongst the public schools and on an as needed bases with expenditures not exceeded the amount awarded per private school.

The agency was awarded \$425,400 grant funds to be used for the purpose of technology upgrades. Of which, the OFA auditors tested \$64,395 of \$425,400 grant award allowable cost activity.

TITLE III, Part A

The purpose for the Title III, Part A grant award was to provide English Second Language (ESL) to students who lack proficiency in English. The program was offered to those students who were in a family that spoke a language other than English as their primary language. The agency was awarded \$964,446 grant funds for the purpose of increasing English Proficiency and Student Academic Achievement. The OFA auditors tested \$18,689 of \$964,446 grant award allowable cost activity.

TITLE V Grant

The MNPS received Title V grant funds for the fiscal years 2005 and 2006 in the amounts of \$277,780.00 and \$388,148.00 respectively from the Tennessee Department of Education. The Title V funds were for innovative programs that support education reform and innovative school improvement programs to improve school, student and teacher performance. The MNPS utilized the Title V grant funds in the areas of reading and math. Under the Title V grant programs, we reviewed one journal entry in the amount of \$220,805.50 which represented 33% of the total two Title V grant awards.

Families First

The purpose for the Families First (Adult Education) grant award was provided various programs such as basic skills, training preparation education to assist in enrollment in Post-Secondary Education or training, reasoning, listening skills, teamwork, work place, problem solving, and critical thinking skills. General Education Development (GED) instruction to be offered as needed, English as a Second Language (ESL) must be furnished. The agency was awarded \$228,680.00 grant funds. The OFA auditors tested \$36,474 of the \$228,680 grant award.

Reading First Grant

The MNPS received two grant awards totaling \$5,548,500.00 from the Tennessee Department of Education for the Reading First Grant Program. The purpose of the Reading First grant is to focus on putting proven methods of early reading instruction in classrooms. Through Reading First, school districts receive support to apply scientifically based reading research—and the proven instructional and assessment tools consistent with this research—to ensure that all children learn to read well by the end of third grade. Under the two reading first grant programs, we tested 19 invoices and/or journal entries totaling approximately \$116,484.90 which represented 2% of the total two grant awards.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives, Scope, and Methodology

A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements for the MNPS and, accordingly, does not express an opinion or any assurances regarding the financial statements of the MNPS or the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements, and non-profit organizations that receive appropriations from Metro government. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The overall monitoring objective was to determine the department’s compliance with grantor guidelines, rules, and regulations. Specifically, we reviewed for the following objectives:

To determine whether the activities and costs of the programs are allowable under the program regulations and provisions of the grant agreement.

- To determine whether costs reported under the grant program are consistent with provisions of grantor guidelines and OMB Circular A-87.
- To determine whether civil rights requirements are met.
- To determine whether minimum requirements for local matching contributions and/or adequate level of expenditures by other sources of funds are met.
- To determine whether the department adheres to grantor guidelines for equipment purchases.
- To determine whether grant funds were used exclusively during the period in which the funds were authorized.
- To determine whether purchases were made in accordance with OMB Circular A-87, the minimum federal, state and local requirements, and grantor guidelines.
- To determine whether grant financial reports are reliable and timely.
- To determine whether Federal compliance requirements regarding subrecipient oversight were met and whether the subrecipient performed in accordance with the contract terms.

The methodology adopted by the OFA encompassed various interviews and an objective review of fiscal files, including:

- financial transactions and supporting documentation,
- Contract agreements and related amendments,
- Federal and/or State financial reports, and
- Internal and external correspondence.

RESULTS OF MONITORING REVIEW

Overall Findings and Major Review Highlights

Our review revealed several discrepancies in internal control and compliance with policies and procedures.

1. Metro Schools need to improve its reporting Controls Over the Reading First Program
2. Metro Schools needs to needs to improve the timeliness of its reimbursement claims

The section that follows provides more detailed information for each of the above findings. Management is given an opportunity to respond to each finding.

FINDINGS AND RECOMMENDATIONS

1. Metro Schools needs to improve its reporting Controls Over the Reading First Program

Tests revealed three MNPS schools in the Reading First grant program exceeded their grant budget restrictions by school. The tests also showed overall expenditures recorded in the ledgers were less than the amount reported to the grantor for reimbursement.

Ten (10) Metro schools participated in the Reading First grant program. The funding to the schools was awarded in two (2) rounds. First to a group of seven (7) schools and the second round went to three schools. Three schools expended funds in excess of their grant budgets. The Reading First program guidelines restricted each school to its individual allocated budget. Each school in the program was allocated a budget of \$205,500.00. Seven of the schools stayed within the allocated budget however three schools exceeded their individual school budgets by a combined sum of \$156,654; Kirkpatrick (\$79,389.19), Schwab (\$8,175.22), and Lockland/Warner (\$69,090.29).

According to the State of Tennessee Department of Education Reading First grant program administrators, the grants are restricted to individual schools and not intended for the School System, therefore the budgets are limited to the budget amounts per school.

Additionally our review of the consolidated reports to the grantor indicates MNPS claimed a total of \$ 1,866,869.27 in expenditures; however ledger indicates the documented expenditures for all 10 schools involved in both rounds amount to only \$ 1,853,331.56 therefore it appears the MNPS overstated the combined expenses of the Reading First program by a total of \$13,537.71. According to MNPS officials, the difference resulted from additional expenses via procurement card purchases which had not been recorded been in the ledgers. Those expenses were recorded in the next fiscal year therefore the amounts on the ledger in the grant period were not consistent with the amounts reported to the grantor.

RECOMMENDATIONS:

1. MNPS should ensure grant adherence to grantor requirements for the Reading First program. The schools should take the necessary steps to ensure grantor reports do not exceed the maximum allowed per school.
2. MNPS should also implement measures to ensure the reported expenditures can be agree with the amounts recorded in the ledgers. It should take the necessary steps to ensure the expenditures are recorded in the correct grant period to avoid over/under reporting in subsequent periods.
3. MNPS should take the necessary steps to resolve these issues with the grantor.

MANAGEMENT'S COMMENTS

We concur in part. According to the State's grant program administrators, Kirkpatrick, Schwab, and Lockland/Warner had funds remaining from previous years that could be utilized in FY 06 grant period. Therefore, these three schools exceeded their individual budgets within the period reviewed, but stayed within total budget for the 3-year grant period. MNPS staff will work with the grantor to ensure that grantor reports do not exceed the maximum allowed per school. Along with working closer with the grantor, MNPS staff will set up accruals within the accounting system to align the ledger reporting periods with the grantor' grant period to avoid the appearance of over/under reporting in subsequent periods.

FINDINGS AND RECOMMENDATIONS

2. Metro Schools needs to needs to improve the timeliness of its reimbursement claims

Tests revealed extended time lapses between the time that the MNPS incurred expenditures for the grant program and the time it submitted claims for reimbursements. Tests also revealed the MNPS is not taking advantage of the advance drawdown options offered on the grant programs. Our review of the MNPS covered eight (8) grant programs and fifteen (15) grants. The delays in submitting reimbursement claims, after incurring expenditures on the grants, results in borrowing Metro dollars to finance the federal/state grant program. Such actions lead to incurring interest charges at Metro's expense because those interest expenses are unallowable; not reimbursable by the grantor. The grant agreement for seven of the 8 programs, at least over 90% percent of the 15 grants offered advance drawdown options however MNPS is not taking advantage of the option. In addition the expenditure claims were not filed timely which results in MIP charges.

OMB Policy #9 (Grant Drawdown and Reimbursements) requires that Metro departments receiving grant funding to obtain grant revenue as quickly as allowable under the terms of the grant agreement. When the terms and conditions of the grant contract require the grant recipients to make expenditures prior to receiving reimbursement, the grant program is in effect borrowing from the Metro Investment Pool (MIP) account. MIP is the excess cash for Metro funds that are pooled together and invested daily in order to earn interest. When expenditures are made against a grant before reimbursement, the expenditures are treated as if the department is borrowing money from the MIP account. Consequently, the department can obtain a negative MIP balance, and incur an additional interest expense which is debited to the departments MIP revenue account. Since these additional interest expense charges adds to the cost of carrying out grant programs, the OMB Policy #9 requires that "department's minimize the time between the expenditure and reimbursement of grant funds."

Our review indicated that MNPS' MIP balances in the grant funds as of June 30, 2006 in excess of \$2.3 million. As such, the department did not conform to OMB Policy #9 and incurred unnecessary additional interest expense.

RECOMMENDATIONS:

The MNPS should take the necessary steps to take advantage of draw downs when available.

MNPS should ensure that grant reimbursement requests are made timely and as quickly as the terms of the grant agreement allow. Additionally, the MNPS should ensure the reports agree with the official records in the ledgers by grant period.

MANAGEMENT'S COMMENTS

We concur in part. MNPS does take advantage of the advance drawdown option offered on grant program. Reviewing Appendix A, we identified 75% of the grant awards as being setup with automatic drawdown. However, the MNPS Business Office will work with the MNPS office of Federal and Categorical Programs toward timely submission of reimbursement requests by reviewing net balances on grant accounts monthly.

APPENDIX A

Grantor	Grant	Grant Period	Grant Award	Findings
TN Department of Education	IDEA Silver 05-01	FY 05	\$166,642.00	Yes
TN Department of Education	IDEA Pre-School 05-01	FY 05	\$309,751.00	Yes
TN. Department of Education	IDEA Pre-School 06-01	FY 06	\$307,511.00	Yes
TN Department of Education	IDEA Part B 05-01	FY 05	\$15,634,426.00	Yes
TN Department of Education	IDEA Part B 06-01	FY 06	\$15,942,800.00	Yes
TN Department of Education	Title II, Part D	FY 05	\$425,400.00	Yes
TN Department of Education	Title II, Part D	FY 05	\$378,096.00	Yes
TN Department of Education	Title II, Part D	FY 06	\$412,641.00	Yes
TN Department of Education	Title III Emergency Immigrant Education Program	FY 05	\$964,446.00	Yes
TN Department of Education	Title III Emergency Immigrant Education Program	FY 06	\$1,164,046.00	Yes
TN Department of Education	Title V	FY 05	\$277,780.00	Yes
TN Department of Education	Title V	FY 06	\$388,148.00	Yes
TN Department of Education	Math and Science Partnership	FY 06	\$810,000.00	Yes
TN Department of Labor and Workforce Development	Families First Program	FY 06	\$228,680.00	No
TN Department of Education	Reading First	FY 06	\$5,548,500.00	Yes