State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

Nevada Department of Education
2015 Education Initiatives
Recipient Monitoring

Report No. 18-06
January 16, 2018

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║                              EXECUTIVE SUMMARY           ║
║                              Department of Education     ║
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**Objective: Improve the Efficiency and Effectiveness of the Grant Management
Process for the 2015 Education Initiatives**

Developing a department-wide risk assessment for grant management will provide a framework
for evaluating grant programs and help allocate limited resources for monitoring grants. None of
the 12 grant programs sampled had written procedures for assessing risk during the pre-award
and post-award phases of the grant process.   The department has limited resources for
monitoring grants. Legislation provided the department with resources to monitor some of the
grants; however, the department had to absorb costs associated with monitoring other grants.
Having an effective risk assessment will help the department use its limited resources to ensure
grant programs are achieving goals and objectives efficiently and funds are being spent
appropriately.

Developing a department-wide recipient monitoring policy will ensure effective and consistent
management protocols within grant programs. Meeting criteria for monitoring recipients, such as:
performing on-site/desktop monitoring, providing audit and performance reports, requiring
corrective action plans, as well as consistent reviews helps ensure grant programs are achieving
goals and objectives. The procedures for performing recipient program monitoring varied in scope
or were not performed at all in the program offices we reviewed.

Recipient monitoring is the responsibility of each program office. Each program office has its own
policies and procedures for monitoring its respective grant programs. Five of 12 programs (42
percent) sampled did not perform any on-site or desktop monitoring. One of 12 programs had
areas in which on-site or desktop monitoring could be improved because recipient monitoring did
not start until fiscal year 2017. Additionally, the program offices did not consistently report audit
findings to recipients, require corrective action plans, and follow-up on recipient corrective action
plans. A department-wide recipient monitoring policy will allow program offices to ensure effective
and consistent management protocols within grant programs, and ensure recipients are achieving
program goals and objectives.

Improving fiscal monitoring will help ensure recipient expenditures are allowable, valid, and
appropriate based on program goals and objectives. Recipients are not providing sufficient
expenditure documentation to the department to ensure expenditures are appropriate based on
program goals and objectives.   Additionally, the department is inadequately reviewing
documentation received from recipients.

Improving fiscal monitoring will help ensure contractors are properly classified and adequately monitored. The department misclassified relationships with two vendors receiving grant funds as recipients rather than contractors. Not properly classifying these two vendors as contractors resulted in state general funds awarded without following state contracting requirements, to include Board of Examiner's approval. The department does not have a standardized, department-wide policy in place for contract monitoring. Consequently, the department did not monitor recipients to ensure they were following state contract procurement guidelines and did not review contractor invoices when reimbursing recipients for contract expenses.

Improving fiscal monitoring will ensure grant funds issued to recipients are properly accounted for. The department did not reconcile recipients' annual reports of revenues and expenditures for state grant programs to the state accounting system to ensure funds issued to recipients were properly accounted for. Without reconciling recipients' annual reports of revenues and expenditures to the state accounting system, the department may be unaware of whether recipients spent all of the funds awarded to them. Nine of 13 recipients (69 percent) did not provide an annual report of revenues and expenditures for fiscal year 2016.

INTRODUCTION

At the direction of the Executive Branch Audit Committee, the Division of Internal Audits conducted an audit of the Department of Education (department).

Our audit focused on programs in support of the 2015 Education Initiatives approved by the Legislature. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objective was to develop recommendations to:

✓ Improve the efficiency and effectiveness of the grant management process for the 2015 Education Initiatives.

Department of Education
Response and Implementation Plan

We provided draft copies of this report to the department for its review and comments. The department's comments have been considered in the preparation of this report and are included in Appendix B. In its response, the department accepted our recommendations. Appendix C includes a timetable to implement our recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and the department.

The following report contains our findings, conclusions, and recommendations.

Improve the Efficiency and Effectiveness of the Grant Management Process for the 2015 Education Initiatives

The department can improve the efficiency and effectiveness of the grant management process for the 2015 Education Initiatives by:

- Developing a department-wide risk assessment for grant management;
- Developing a department-wide recipient monitoring policy; and
- Improving fiscal monitoring.

Effective management protocols and tools are important to ensure grant programs are achieving goals and objectives efficiently, and funds are being spent appropriately.

2015 Education Initiatives

In 2015, the Legislature approved almost $335 million in general funds through various grant programs to support the department's education initiatives in: early learners, modernizing the Nevada Plan, middle school and high school, and investing in change.[1] State grants were awarded to Nevada's school districts and many charter schools (recipients). Some of the school districts sub-granted state funds to individual schools to achieve educational goals and objectives throughout the state.

The department manages numerous grant programs both at the federal and state levels supporting the 2015 Education Initiatives (initiatives). The department faces many challenges ensuring those grant programs are achieving its mission of improving student achievement and educator effectiveness, as well as monitoring that funds are being spent appropriately.

Independent Report Recommends Continued Funding
Based on Positive Program Outcomes

The department obtained an external evaluation of the initiatives per legislative requirements. The report was issued in December 2016.[2] The report focused on the quality of educators, student achievement and growth, school safety and climate, and technology use in education through an analysis of seven grant programs. The report recommended continued funding for each of the programs

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[1] Modernizing the Nevada Plan included the following changes: adding special education weights; establishing a special education contingency account; expanding the Zoom Schools program; creating a Victory Schools program; and expanding the Gifted and Talented Students program.
[2] The department used state general funds of $347,000 to pay for an external evaluation.

reviewed and included opportunities for improvement. The report recommended continued funding for all seven programs reviewed because these programs were achieving the educational outcomes intended by the initiatives.

Grant Management Can Be Improved

We interviewed program and fiscal staff of 12 state general fund grant programs that were approved by the 2015 Legislature to determine the efficiency and effectiveness of the grant management process. We identified areas in which the department can improve the efficiency and effectiveness of the grant management process for the initiatives.

Limited State Guidance for Managing Recipient Grants

The State Administrative Manual (SAM) provides limited guidance for state agencies on managing recipients of state grants. State agencies, including the department, are left to create their own policies and procedures and to rely on best practices to effectively monitor recipients.

In the absence of comprehensive state grant management guidelines, policies and procedures found in federal guidelines for grants awarded to states are the best practices the department may be able to apply to recipients awarded state general funds for the initiatives. Additionally, state agencies are subject to certain guidelines when using state funds; best practices would provide that recipients of state funds be subject to equivalent guidelines.

Grant Management Practices Vary Among Grant Programs

We evaluated the grant management process by focusing our review on the following criteria: recipient monitoring and fiscal controls. Seven of the 12 grant programs were reviewed to evaluate their fiscal controls.

Grant programs that met applicable criteria are indicated in green, those needing improvement are indicated in yellow, and those not meeting criteria are indicated in red. Exhibit I shows each grant program's ability in meeting the criteria noted below.

Exhibit I

Grant Management Criteria
2015 Education Initiatives

Name of Grant Program	Recipient Monitoring							Fiscal Controls	
	Risk Assessment	Funding for Staff	Funding for Travel	On-Site/ Desktop Monitoring	Audit Findings & Mgt Decision	Corrective Action Plan	Performance Report	Contract Monitoring	Detailed Expenditure Review
Career & Technical Education	Red	Green	Green	Green	Green	Yellow	Green	Yellow	Yellow
College & Career Readiness/Advanced Placement	Red	Red	Red	Red	Red	Red	Green	Red	Red
Great Teaching and Leading Fund	Red	Green	Green	Yellow	Yellow	Yellow	Green	Green	Yellow
Nevada Ready 21	Red	Green	Green	Green	Green	Green	Green	Green	Green
New Teacher Incentives	Red	Red	Red	Red	Red	Red	Green	Red	Red
Pre-Kindergarten Development State Match	Red	Green	Green	Green	Green	Green	Green	(gray)	(gray)
Read by Grade Three State Initiative	Red	Green	Green	Green	Green	Green	Green	(gray)	(gray)
Social Workers in Schools	Red	Green	Green	Red	Red	Red	Green	Red	Red
Teach Nevada Scholarships	Red	Red	Red	Red	Red	Red	Green	Red	Red
Underperforming Schools Turnaround	Red	Green	Red	Red	Red	Red	Green	(gray)	(gray)
Victory Schools	Red	Green	Green	Green	Green	Green	Green	(gray)	(gray)
Zoom Schools	Red	Red	Green	Green	Green	Green	Green	(gray)	(gray)

(Green)	Meets applicable criteria.
(Yellow)	Needs improvement.
(Red)	Does not meet applicable criteria.

Table Note:
Gray shaded box indicates the grant program was not selected as part of the sample for a review of fiscal controls.

Data shows:

- None of the 12 programs performed a risk assessment; 4 of 12 (33 percent) of grant programs met all applicable criteria or best practices for recipient monitoring, including: providing on-site/desktop monitoring; developing audit findings; developing and reviewing a corrective action plan; and developing a performance report;
- Seven of 12 (58 percent) of grant programs received funding for both staff and travel to conduct recipient monitoring; and
- One of 7 grant programs partially met applicable criteria or best practices for fiscal controls, including: contract monitoring and detailed expenditure review.

Develop a Department-wide Risk Assessment for Grant Management

The department should develop a department-wide risk assessment for grant management. This will provide a framework for evaluating grant programs and help allocate limited resources in grant management. Having an effective risk assessment will help ensure grant programs are achieving goals and objectives efficiently and funds are being spent appropriately.

No Formal Risk Assessment

None of the 12 grant programs had written procedures for assessing risk during the pre-award and post-award phases of the grant process. A pre-award risk assessment would help identify issues with potential recipients that may affect the amount of the grant awarded. A post-award risk assessment would help identify issues with recipients that may affect the type and frequency of monitoring procedures the department may choose to perform.

Federal grant requirements for competitive grants cite that the awarding agency must have in place a framework for evaluating the risks posed by applicants before they receive awards.[3] Furthermore, requirements also state during the post-award phase, awarded agencies should be evaluated based on an overall risk of noncompliance, including: current and prior experience, results of previous audits, nature and complexity of the program, and amount of federal awards expended.[4] Without documented procedures, risk assessments may not be performed as intended or be consistent from year to year and among program offices.

Department Has Limited Resources for Monitoring

The department does not have sufficient staff and travel fund resources to fully monitor the 12 grant programs we reviewed. Legislation provided the department with resources to monitor some of the grants; however, the department had to absorb costs associated with monitoring other grants. Limited resources may continue to impact the department's ability to effectively monitor the initiatives. Adequate staffing and travel funds are necessary to ensure proper oversight of grant programs.

Program and fiscal staff represented they have a heavy workload due to the number and size of grant programs they oversee, which includes numerous recipients. Grant programs, on average, have 15 recipients.[5] One program staff

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[3] Title 2, Part 200.205(b) of Code of Federal Regulations. (c) The awarding agency may use a risk-based approach and may consider items such as: financial stability; history of performance, reports and findings from audits; and the applicant's ability to effectively implement statutory, regulatory, or other requirements.
[4] Title 2, Part 200.519 of Code of Federal Regulations.
[5] Based on an average of the 12 grant programs reviewed during fiscal year 2017.

indicated that the grant program she managed had 23 recipients, which included over 300 schools during fiscal year 2017.

Using a risk assessment would help the department determine which grant programs and recipients warrant using their limited funds for monitoring activities as part of their grant management responsibilities.

Conclusion

Developing a department-wide risk assessment for grant management will provide a framework for evaluating grant programs and help allocate limited resources for grant management.

Recommendation

1. Develop a department-wide risk assessment for grant management.

Develop a Department-wide Recipient Monitoring Policy

The department should develop a department-wide recipient program monitoring policy to ensure grant programs are achieving goals and objectives. Monitoring recipients allows program offices to ensure effective and consistent management protocols within grant programs.

Recipient Program Monitoring Varied in Scope or Not Performed at All

The procedures for performing recipient program monitoring varied in scope or were not performed at all in the program offices we reviewed. We evaluated each grant program's recipient monitoring based on the following federal criteria:[6]

- Does the program office provide formal on-site monitoring, desktop monitoring, or both?[7]
- Does the program office provide a report addressing the results of such monitoring and address recommendations for audit findings?
- Does the recipient develop a corrective action plan? Is it reviewed by the program office?
- Does the program office provide a performance report indicating program outcomes?

No Department-wide Recipient Monitoring Policy

The department does not have a standardized, department-wide policy for recipient program monitoring. Recipient monitoring is the responsibility of each program office. Each program office has its own policies and procedures for monitoring its respective grant programs. For example, one program office conducts on-site monitoring of recipients on a 2 to 3 year cycle depending on the size of the recipient. Other program offices conduct on-site monitoring on an annual basis. Additionally, some program offices conduct both on-site and desktop monitoring.

Moreover, because the department does not have a framework for evaluating risk, it cannot ensure that monitoring efforts, if any, address high-risk recipients. Providing adequate monitoring ensures recipients are meeting requirements as stated in the goals and objectives of the grant program.

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[6] Title 2, Part 200.331(d) of Code of Federal Regulations.

[7] On-site monitoring may include: visits to school districts, interviews with stakeholders, classroom walk-throughs, review of recipients' policies and procedures, and inventory reconciliation to ensure grant programs are achieving goals and objectives. Desktop monitoring may include: reviewing reports and written feedback from recipients of grant performance program results and statistical data to ensure grant programs are achieving goals and objectives.

<u>Limited On-Site/Desktop Monitoring</u>

The program offices provided limited on-site/desktop monitoring of recipients. Five of 12 programs (42 percent) did not perform any on-site or desktop monitoring. One of 12 programs had areas in which on-site or desktop monitoring could be improved; recipient monitoring did not start until fiscal year 2017. Without monitoring, program offices are not able to identify deficiencies within the grant program and report those deficiencies to recipients.

<u>Inconsistent Audit Reporting and Follow-Up</u>
<u>on Corrective Action Plan</u>

The program offices did not consistently report audit findings to recipients and require corrective action plans. Moreover, program offices did not consistently follow-up on recipient corrective action plans.

An external evaluator was contracted to perform recipient monitoring on a program. However, the external evaluator did not report on individual recipients but reported on the program as a whole. Additionally, corrective action plans were not consistently followed-up on for another program.

Without consistent audit reporting and follow-up on corrective action plans, program offices cannot ensure recipients implement changes stated in their corrective action plans.

Conclusion

Developing a department-wide recipient monitoring policy will ensure effective and consistent management protocols within grant programs. Meeting criteria such as: on-site/desktop monitoring, providing audit and performance reports, and requiring corrective action plans, as well as consistent reviews helps ensure grant programs are achieving goals and objectives.

Recommendation

2. Develop a department-wide recipient monitoring policy.

Improve Fiscal Monitoring

The department should improve fiscal monitoring by:

- Reviewing supporting documentation for recipient expenditures;
- Ensuring proper classification of grant award recipient;
- Developing a standardized, department-wide policy for contract monitoring; and
- Reconciling the state accounting system with recipient annual financial reports.

Improving fiscal monitoring will help ensure expenditures are allowable, valid, and appropriate based on program goals and objectives. Additionally, improving fiscal monitoring will help ensure contractors are properly classified and adequately monitored.

Review of Supporting Documentation
Can Be Improved

The department should improve its review of supporting documentation for recipient expenditures. This will ensure recipient expenditures are allowable, valid, and appropriate based on program goals and objectives.

Recipients are not providing sufficient expenditure documentation to the department to ensure expenditures are appropriate based on program goals and objectives. Moreover, the department is inadequately reviewing documentation received from recipients.

A majority of supporting documentation only consisted of the recipients' program budget spreadsheet and general ledger. Our sample of recipients revealed the following documentation deficiencies:

- Lack of invoices for equipment, tuition, supplies, etc.;
- Lack of payroll reports for salaries; and
- Lack of travel expense sheets.

Additionally, we noted specific instances of questionable expenditures:

- Approximately $570,000 was overspent on computer devices during fiscal year 2016 based on projected student and staff count for the school year. Examination of vendor invoices and actual student and staff counts for the program revealed 829 computer devices were purchased in excess. The program office did not ensure computer devices purchased reconciled with actual student and staff counts and did not require recipients to return excess computer devices.

- Approximately $200,000 was spent for unallowable expenses during fiscal year 2016. Senate Bill 515, Sec. 23 states funds must be used to provide for contract social workers or other licensed mental health workers in schools with identified needs. However, recipients used funds to pay for general supplies, IT related supplies, equipment, non-department sponsored training, books, dues and fees, and indirect costs.

- Approximately $285,000 was awarded as scholarships during fiscal year 2017. The program office did not perform a sample test to ensure the validity of those who were awarded scholarships.

- Approximately $1.4 million was awarded to a non-profit organization during fiscal years 2016 and 2017 to develop educational tools; however, only about $600,000 was paid after the department consulted with the Legislative Counsel Bureau and the Governor's Finance Office/Budget Division and determined non-profit organizations were not eligible for these grant funds. Senate Bill 515, Sec. 22 states funds are to be awarded to middle schools, high schools, and charter schools to support dual enrollment and STEM programs, not to non-profit organizations.[8]

- Approximately $990,000 was spent for salary expenses, including benefits for two vendors. The program office did not require measures or milestones to be met in order to support expenditures.

Without reviewing supporting documentation, the department cannot ensure recipient expenditures are allowable, valid, and appropriate based on program goals and objectives. Federal guidelines require recipients to be monitored to ensure awarded funds are used for the purposes authorized by the conditions of the grant.[9] Best practices would include both a program and fiscal review of expenditures. The program office would review expenditures for compliance with the program goals and objectives of the grant and the fiscal office would review expenditures for mathematical accuracy of invoices and worksheets provided by the recipient.

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[8] STEM – Science, Technology, Engineering and Mathematics.
[9] Title 2, Part 200.331(d) of Code of Federal Regulations.

<u>Grant Assurances Require Submitting</u>
<u>Supporting Documentation</u>

As part of the grant process, the department requires recipients to document their ability and willingness to comply with various state requirements by signing a grant assurance. Some grant assurance requirements include:

- Assuring funds will be used solely for the purpose of supporting the activities outlined in the Request for Application;
- Assuring funds will supplement, and not supplant, money that is otherwise to be expended by the recipient; and
- Assuring supporting documents for expenditures will be maintained for audit.

Without receiving supporting documentation, the department cannot determine whether recipients are complying with grant assurance requirements.

<u>Accountability of Advanced Funds</u>
<u>Can Be Improved</u>

The department advanced funds to recipients at the start of the program for three of seven grant programs we sampled. However, the department did not ensure they received supporting documentation for how the advanced funds were used. One of the programs transitioned to a reimbursement basis in fiscal year 2017 and subsequently provided expenditure detail when requesting reimbursements.

Without receiving supporting documentation for expenditures of advanced funds, the department cannot properly account for funds advanced to recipients.

Misclassified Relationships With Contractors

The department misclassified relationships with two vendors receiving grant funds as recipients rather than contractors. One program awarded funds to two vendors to develop educational tools as a recipient. The educational tools were to be used to help enhance STEM education in school districts. The vendors provided educational tools but had no responsibility for implementing the program.

Using federal guidance, these relationships should have been classified as contractors as opposed to recipients.[10] Federal guidance represents awards to recipients are for the purpose of carrying out programs. A recipient has responsibilities and authorities in line with performing significant procedures to fulfill the objective of the grant program. A contractor only provides goods and services needed to fulfill the objective of the grant program.

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[10] Title 2, Part 200.330(b) of Code of Federal Regulations.

The program office did not have supporting documentation for the rationale why the two vendors were classified as recipients rather than contractors as outlined in federal guidance for grants. Not properly classifying these two vendors as contractors resulted in state general funds awarded without following state contracting requirements, to include Board of Examiner's approval. Misclassifying vendors circumvents the proper approval process for contracts and misclassifying recipients circumvents grant oversight guidelines.

Lack of Contract Monitoring

The department does not have a standardized, department-wide policy in place for contract monitoring. Consequently, the department did not monitor recipients to ensure they were following state contract procurement guidelines and did not review contractor invoices when reimbursing recipients for contract expenses.

All seven grant programs inadequately monitored recipient contracts:

- The department represents it is not ensuring recipients award contracts in accordance with state contract procurement guidelines and best practices.
- The department is not verifying recipients monitor contractors to ensure they are performing in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
- The department is not receiving contract invoices to review and ensure expenditures are consistent with the contract.

Federal guidance requires non-federal entities ensure contracts are awarded in accordance with state contract procurement guidelines and contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.[11]

Without a standardized, department-wide policy for contract monitoring, the department cannot ensure recipients are following state contract procurement guidelines and cannot ensure contractor invoices are consistent with the contract.

**No Reconciliation between Accounting System
and Annual Financial Reports**

The department did not reconcile the state accounting system to the recipients' annual financial reports to ensure grant funds were accounted for properly. For one grant program in fiscal year 2016, two of 13 recipients (15 percent) did not spend all of the funds awarded to them at the start of the grant program and reverted unused funds of approximately $2.34 million to the department at the end of the fiscal year. However, the program office did not reconcile the recipients' annual reports of revenues and expenditures to the state accounting system,

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[11] Title 2, Part 200.317, Part 200.318(b) of Code of Federal Regulations.

thereby not detecting grant program expenditures were overstated in the state accounting system by approximately $2.34 million.

The department may not be aware of other recipients that did not spend all of the funds awarded to them. Nine of 13 recipients (69 percent) did not provide an annual report of revenues and expenditures for fiscal year 2016. Grant recipients are required to provide an annual reporting of revenues and expenditures per NRS 387.303.

Without adequate reconciliation procedures, there may have been funds not used or used for other purposes than those intended by the grant program.

Conclusion

Improving fiscal monitoring by: reviewing supporting documentation for recipient expenditures; ensuring proper classification of grant award recipient; developing a standardized, department-wide policy for contract monitoring; and reconciling the state accounting system with recipient annual financial reports will help ensure expenditures are allowable, valid, and appropriate based on program goals and objectives. Additionally, improving fiscal monitoring will help ensure contractors are properly classified and adequately monitored.

Recommendation

3. Improve fiscal monitoring.

Appendix A

Scope and Methodology,
Background, Acknowledgements

Scope and Methodology

We began the audit in March 2017. In the course of our work, we interviewed the department and discussed processes inherent to their responsibilities. We reviewed department records, legislative reports, applicable Nevada Revised Statutes, and other state and federal guidelines. We concluded field work and testing in December 2017.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Background

The department consists of three divisions, with each division managing various offices:

- Business and Support Division – Office of Audit Services, Office of District Support, and Office of Department Support.
- Division of Educator Effectiveness and Family Engagement – Office of Educator Licensure, Office of Educator Development & Support, and Office of Parental Involvement & Family Engagement.
- Student Achievement Division – Office of Safe & Respectful Schools, Office of Standards & Instructional Support, Office of Early Learning & Development, Office of Special Education, Office of Career Readiness, Adult Learning & Education Options, Office of Assessments, Data, & Accountability Management, and Office of Students & School Supports.

These offices are responsible for one or more grant programs. The offices have directors, supervisors, and program professionals responsible for the administration of grants in the department. The department's Office of District Support provides fiscal assistance and guidance to all other offices in the department.

The department's budget for the 2015 Education Initiatives was approximately $335 million. Exhibit II summarizes the department's budget for fiscal years 2016 and 2017.

Exhibit II

Department of Education
General Fund Appropriation
Fiscal Years 2016 & 2017

334,854,262
12%

2,255,104,186
78%

281,001,174
10%
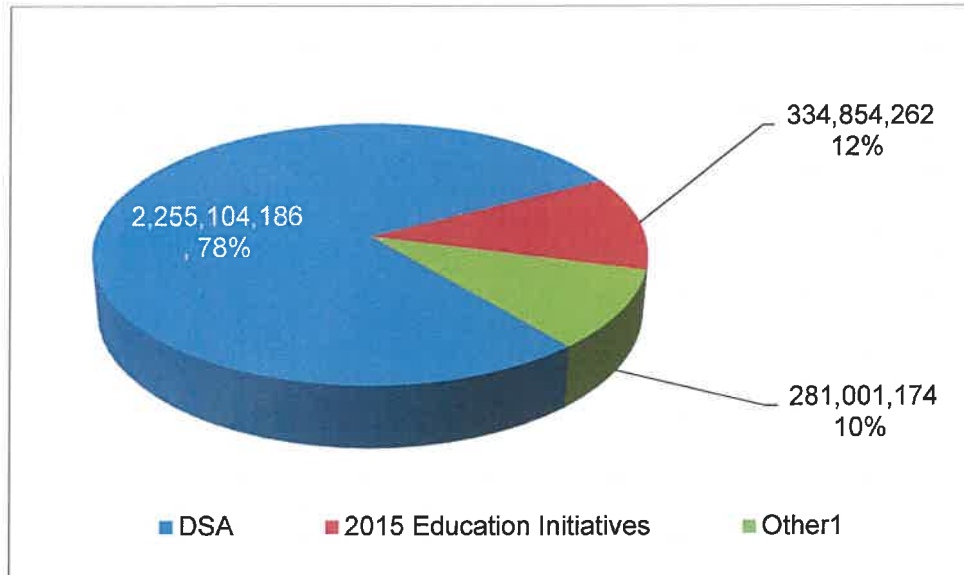
■ DSA   ■ 2015 Education Initiatives   ■ Other1

Table Note:
[1]Other includes continuing programs (e.g. full day kindergarten, kindergarten class size reduction), operational expenses, etc.

The department's mission is to improve student achievement and educator effectiveness by ensuring opportunities, facilitating learning, and promoting excellence. The department achieves its mission by providing grant opportunities to school districts, charter schools, non-profit and for-profit organizations to fund programs that facilitate learning and promote excellence.

Acknowledgments

We express appreciation to the department and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Executive Branch Audit Manager

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Appendix B

Department of Education
Response and Implementation Plan

BRIAN SANDOVAL
Governor

STEVE CANAVERO, Ph.D.
Superintendent
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December 15, 2017

To: Steve Weinberger, CPA
        Administrator, Governor's Finance Office
        Division of Internal Audits

From: Roger Rahming, Deputy Superintendent
        Business and Support Services

Subject: 2017 Audit of 2015 Education Initiatives Findings Response

This letter is in response to the recommendations to improve the efficiency and effectiveness of the grant management process for the 2015 Education Initiatives administered by the State of Nevada, Department of Education (NDE) for the fiscal year ended June 30, 2017. The audit findings pertain to the State general funded programs listed below:

    Career and Technical Education
    College and Career Readiness/Advanced Placement
    Great Teaching and Leading Fund
    Nevada Ready 21
    New Teacher Incentives
    Pre-Kindergarten Development State Match
    Read by Grade Three State Initiative
    Social Workers in Schools
    Teach Nevada Scholarships
    Underperforming Schools Turnaround
    Victory Schools
    Zoom Schools

As noted on page 3 of 17, there is limited State guidance for managing recipient grants in the State Administrative Manual (SAM). NDE continues developing processes and policies which align with federal guidelines consistent with outside auditor advice.

Below are the Department of Education's responses to audit recommendations.

Observations - "No Formal Risk Assessment and Department has Limited Resources for Monitoring" resulted in the following recommendation:

Develop a department–wide risk assessment for grant management.

NDE Response

The Nevada Department of Education has reviewed and accepts this finding. The auditor examined twelve grant programs, and found that none of the programs had written procedures for assessing risk during the pre-award and post-award phases of the grant process. Federal grant requirements for competitive grants cite that the awarding agency must have in place a framework for evaluating the risks posed by applicants before they receive awards and during the post-award phase. Further, the Department does not have sufficient staff and travel fund resources to fully monitor the 12 grant programs reviewed. Limited resources may continue to impact the department's ability to effectively monitor the initiatives. Adequate staffing and travel funds are necessary to ensure proper oversight of grant programs.

Corrective Action # 1

NDE has developed risk assessments for some of the department's grants and will deploy this department-wide to state grants. Because the disbursement of the Zoom and Victory funds occur up front, risk assessment for those grants will occur during post-award. NDE will fully develop the department-wide risk assessment no later than July 1, 2018.

Observations - "Recipient Monitoring Varied in Scope or Not Performed at All, Limited On-Site/Desktop Monitoring, and Inconsistent Audit Reporting and Follow-Up on Corrective Action Plan" resulted in the following recommendation:

Develop a department-wide recipient monitoring policy.

NDE Response

The Nevada Department of Education has reviewed and accepts this finding. The audit has determined that NDE does not have a standardized, department-wide policy for recipient program monitoring, and that each program office has its own policies and procedures for monitoring its respective grant programs. Some program offices were found to conduct both on-site and desktop monitoring.

Corrective Action #2

NDE will develop a department-wide recipient monitoring policy, which will be augmented by the completion of Corrective Action #1 (Risk Assessment). NDE's policy will include items such as formal on-site monitoring, desktop monitoring, distribution of monitoring results, as well as development of a corrective action plan and follow-up by the Department to help ensure grant programs are achieving goals and objectives. NDE will employ this corrective action no later than July 1, 2018.

Observations - "Review of Supporting Documentation Can Be Improved, Misclassified Relationships with Contractors, Lack of Contract Monitoring, and No Reconciliation between Accounting System and Annual Financial Reports" resulted in the following recommendation:

Improve fiscal monitoring.

NDE Response

The Nevada Department of Education has reviewed and accepts this finding. The audit has determined that NDE should improve fiscal monitoring by reviewing supporting documentation for recipient expenditures, ensuring proper classification of grant award recipients, developing a standardized, department-wide policy for contract monitoring; and reconciling the state accounting system with recipient annual financial reports.

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<u>Corrective Action #3</u>

- Improved fiscal monitoring will be augmented by the implementation of Corrective Action #1 and #2 (the increased monitoring and desk auditing determined by the department-wide risk assessment). The outcome of the risk assessment will result in monitoring and review of a random sample of individual invoices and contracts for some recipients.

  In the Eide Bailey Single Audit report for FY2016, NDE was given Finding #2016-022 which resulted in the following recommendation and NDE's corrective action: "We recommend that the Department implement internal controls to ensure amounts charged to the Federal program are adequately documented. Corrective Action: For fiscal year 2017, general ledgers are being uploaded with each payment to an LEA. Monthly budget monitoring will be conducted by the Department's Business and Support Services staff to reflect the descending balance of each sub-grant award throughout the course of the year, beginning on March 1, 2017. This monthly budget monitoring will ensure that ePAGE and DAWN match."

- NDE will incorporate federal guidance (Title 2, Part 200.330 of the Code of Federal Regulations) into NDE policies and procedures to ensure proper classification of contractors and recipients.

- NDE will include a standardized, department-wide policy for contract monitoring within the department-wide policy for recipient monitoring, as delineated in Corrective Action #2.

- In FY2017, NDE changed the procedure on the distribution method of advancing funds for the state grant found to not be reconciled between the state accounting system and the recipients' annual financial reports to ensure grant funds were accounted for properly. NDE now requires the recipient to request funds on a reimbursement basis, rather than an advance. This will prevent funds from being overstated in the state accounting system.

  In addition to the corrective actions listed above, NDE has implemented a new Checkbook, utilized throughout the Department to assist in grant tracking and reconciliation with the State accounting system. Further, NDE has created a grant reversion spreadsheet to identify unspent award balances by recipient and grant.

The following items have been completed in FY2017 and are currently being implemented:

- NDE collects General Ledgers for all request for funds;
- NDE has introduced the use of checkbooks to improve grant tracking; and
- NDE has created a spreadsheet to balance the state accounting system against the recipient allocated awards

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Appendix C

Timetable for Implementing
Audit Recommendations

In consultation with the Department of Education (department), the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department target completion dates are incorporated from Appendix B.

**Category 1: Recommendations with an anticipated
implementation period less than six months.**

Recommendations	Time Frame
1. Develop a department-wide risk assessment for grant management. (page 6)	July 2018
2. Develop a department-wide recipient monitoring policy. (page 8)	July 2018

**Category 2: Recommendations with an anticipated
implementation period exceeding six months.**

Recommendation	Time Frame
3. Improve fiscal monitoring. (page 13)	Dec 2018

The Division of Internal Audits shall evaluate the action taken by the department concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and the department.