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We have completed an audit of the Programs for Innovation and the Prevention of Remediation as required by NRS 385.3789(4). The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Nevada Department of Education, the Commission on Educational Excellence, and to the Carson City, Clark, Elko, Lyon, and Washoe County School Districts and the schools within those districts, for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend", with a large, sweeping flourish at the end.

Paul V. Townsend, CPA
Legislative Auditor

September 22, 2009
Carson City, Nevada

STATE OF NEVADA
PROGRAMS FOR INNOVATION
AND THE PREVENTION OF REMEDIATION

AUDIT REPORT

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EXECUTIVE SUMMARY

PROGRAMS FOR INNOVATION AND THE PREVENTION OF REMEDIATION

Background

Senate Bill 404 of the 2005 Legislative Session created the Commission on Educational Excellence (Commission) and the Account for Programs for Innovation and the Prevention of Remediation (Account). The Commission consists of nine members serving two-year terms, eight of which are appointed by the Governor with the remaining member being the Superintendent of Public Instruction. The Commission is responsible for activities related to increasing student achievement including: establishing grant requirements, reviewing and approving grant fund requests, and allocating money from the Account to the various schools and school districts. The Nevada Department of Education (NDE) provides administrative support, equipment, and office space to the Commission.

The 2005 Legislature appropriated \$91.9 million to the Account. Of this amount, \$78 million was for programs at the elementary school level and nearly \$13.9 million for programs at the secondary school level. In fiscal years 2006 and 2007, schools and school districts spent \$81.3 million of these funds.

Purpose

This audit is required by NRS 385.3789(4). The purpose of this audit was to determine whether program expenditures at selected schools and school districts with funding from the Account for Programs for Innovation and the Prevention of Remediation were in compliance with laws, Commission and NDE policies and procedures, and grant awards. We also determined whether grant allocations were distributed, administered, and reported in accordance with laws, Commission and NDE policies and procedures, and the terms of the grant awards.

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This audit included grant expenditures funded from the Account at the Carson City, Clark, Elko, Lyon and Washoe County School Districts, and at selected schools within those districts. It also included a review of grant administration activities at the Commission on Educational Excellence and NDE. Our audit covered grants allocated for the periods ended June 30, 2006 and 2007.

Results in Brief

Schools and school districts did not always spend grant funds received from the Account in accordance with laws, Commission and NDE policies and procedures, and the terms of the grant awards. Approximately \$6 million of expenditures made by schools and school districts was not approved by the Commission at all, or at the time the expenditure was incurred. In addition, NDE and the Commission on Educational Excellence can improve activities related to administering and monitoring program funds. For instance, grant period and reporting deadlines did not coincide with the normal school year and contributed to schools and school districts submitting inaccurate and untimely reports. Additionally, NDE did not always distribute funds timely from the Account in accordance with State law. Finally, policies and procedures are not adequate to ensure equipment purchased with Account funds is properly safeguarded, tracked, reported, and monitored. Most of these issues occurred because the program was new for 2006 and 2007.

Principal Findings

- Expenditures made by schools and school districts were not always authorized by the Commission. Over \$580,000 in expenditures were made on items that were specifically rejected or never presented to the Commission for approval. For instance, Clark County

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School District purchased an educational software license for \$200,000 in May 2006 from its district-wide grant. However, the Commission had denied funding for this type of expenditure during the grant award process in January 2006. (page 13)

- Grant amendments were not always prepared or properly approved prior to the expenditure of funds. Schools and school districts in our sample spent over \$5.1 million of grant funds prior to receiving Commission approval. We also found NDE approved some amendments even though statute indicates the Commission is responsible for allocating funds. About \$380,000 in expenditures were approved by NDE instead of the Commission. (page 16)
- Documentation used to modify original grant budgets was not sufficient to easily determine the changes being requested by the grantee. As a result, items originally rejected by the Commission were amended back into certain grants. This occurred because the Commission did not have adequate policies regarding the amendment process and relied on NDE to develop documentation. (page 19)
- The Commission used funding designated for elementary schools to approve district-wide grants that included secondary school programs. We identified over \$1 million in elementary funding that was used for secondary schools. This may have resulted in some elementary schools receiving only partial funding on grant requests. (page 21)
- About 16% of annual reports were not submitted by established deadlines. In addition, nearly 31% of the reports submitted timely were not accurate. Because grant periods established by the Commission did not allow for grant activities occurring through the end of the school year, some school districts used estimates which resulted in about \$172,000 in funding not being returned to the Account. (page 23)

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- Some annual financial reports were inaccurate because schools and school districts made improper accounting entries and supporting schedules did not reflect all grant activities. Some grantees made improper accounting entries transferring expenditures in excess of budget authorizations to other fiscal years, grants, and budget subcategories. As a result, amounts returned at the end of the grant period were reduced. (page 25)
- The Department of Education did not distribute funding in accordance with statute for fiscal year 2007. Even though statute requires the full distribution of funds by August 15, not all amounts were distributed by this date, and some funds were received over a year later. (page 26)
- Schools and school districts did not return unused funds to the Account in a timely manner. In addition, NDE did not deposit funds in accordance with state law. The untimely return of funds and failure to deposit checks timely resulted in the loss of about \$45,000 in interest earnings to the State. (page 27)
- Adequate controls are not in place to ensure equipment purchased with funding from the Account is properly safeguarded. Nearly 6% of the assets included in our sample could not be located. Some missing equipment is highly susceptible to loss, theft, or misuse such as laptop and desktop computers. (page 29)

Recommendations

This audit report contains 16 recommendations to help ensure the expenditure of funds from the Account are in compliance with laws, policies and procedures, and the terms of the grant awards. Specifically, NDE should work with the Commission to develop policies regarding all

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aspects of the grant allocation and monitoring process including providing authority to NDE to perform certain functions on its behalf. Further, controls can be improved over financial and administrative functions to ensure expenditure, amendment, reporting, and funding distribution activities are proper and equipment is safeguarded. In addition, NDE should revise grant periods and deadlines to allow for a more accurate accounting of grant funds. (page 46)

Agency Response

The agency, in response to the audit report, accepted the 16 recommendations. (page 43)

Introduction

Background

Senate Bill (S.B.) 404 of the 2005 Legislative Session created the Commission on Educational Excellence (Commission). The Commission consists of nine members serving two-year terms, eight of which are appointed by the Governor with the remaining member being the Superintendent of Public Instruction as an ex officio voting member. Appointments are specified and include:

- Three teachers, two elementary and one secondary, who have been successful in school improvement efforts.
- Two principals, one elementary and one secondary, who have been successful in school improvement efforts.
- Two school district administrators, one from a district whose county has a population in excess of 100,000, and one from a district whose county has a population less than 100,000.
- One parent or legal guardian of a pupil enrolled in a public school in this State.

The Commission is responsible for activities related to increasing student achievement. Specifically, some of the Commission's responsibilities include: establishing a program of educational excellence for pupils in grades kindergarten through sixth; identifying programs, practices, and strategies that have proven effective in improving the academic achievement and proficiency of pupils; developing a concise application for Nevada's schools and districts to apply for grants of money; determining the amount of money that is available to grant Nevada's public schools; and allocating money to public schools.

In order for the Commission to allocate public schools money, S.B. 404 also created the Account for Programs for Innovation and the Prevention of Remediation (Account). Money in the Account may only be used for Commission approved grants to public schools and school districts. These grants are to be used for innovative programs or programs designed to improve the achievement of pupils.

S.B. 404 appropriated \$91.9 million from the State General Fund and the State Distributive School Account. The appropriations designated funding be used based on the type of school, either elementary (K-6) or secondary (7-12). Exhibit 1 details the amounts specified for use by school type by the appropriated fiscal year.

Exhibit 1

**Appropriations of Money
Account for Programs for Innovation and the Prevention of Remediation
Fiscal Years 2006 and 2007**

Fiscal Year	Elementary Schools	Secondary Schools	Total
2006	\$50,000,000	\$ 6,818,788	\$56,818,788
2007	\$28,000,000	\$ 7,089,336	\$35,089,336
Totals	\$78,000,000	\$13,908,124	\$91,908,124

Source: Section 16.3 and 16.7 of S.B. 404 (Chapter 437, Statutes of Nevada 2005).

The Nevada Department of Education (NDE) provides administrative support, equipment and office space to the Commission. Personnel within NDE assist the Commission in the administration of the Account.

The Commission required schools and school districts to complete grant applications for 2006 and 2007 funding. Grant applications included a grant budget request which detailed the programs to be implemented. Grant budgets specified program costs by categorizing expenditures into the following areas: salaries, benefits, professional services, travel, supplies, and equipment.

The Commission reviewed grant applications and budgets and awarded allocations of Account funding to schools and school districts. The Commission awarded grant allocations which stipulated the total funding a school or school district could expend. Additionally, the Commission detailed how allocated funds to schools and school districts were to be spent by approving or denying specific programs and grant budget categories and subcategories.

Schools and school districts were allowed to revise original grant budgets, approved by the Commission, through the use of budget amendments. Typically, budget amendments added or removed programs to be implemented and moved grant funding between budget categories and subcategories, but, did not change the total allocation received by the school or school district.

Grant applications for funding appropriated by S.B. 404 were required to be submitted by December 16, 2005 and May 3, 2006, for fiscal years 2006 and 2007. Nearly 700 grant applications were received requesting various programs be funded from the Account. The Commission fully funded some grant requests, partially funded others, and did not fund some requests based on criteria specified in S.B. 404. The Commission allocated funding for more than 500 public schools and school districts to be used throughout the grant period. Exhibit 2 shows the number of applications received and funded by the Commission for each school district.

Exhibit 2

**Grant Applications
Fiscal Years 2006 and 2007**

District	Received	Funded
Carson City	15	13
Churchill	11	10
Clark	392	303
Douglas	14	14
Elko	24	22
Esmeralda	5	5
Eureka	5	5
Humboldt	14	12
Lander	8	7
Lincoln	10	10
Lyon	25	20
Mineral	6	6
Nye	25	18
Pershing	4	3
Storey	7	5
Washoe	93	76
White Pine	11	9
Charter Schools	4	1
Totals	673	539

Source: Department of Education.

Of the \$91.9 million allocated, schools and school districts spent \$81.3 million for items such as personnel and benefits, professional services, travel, supplies, dues and fees, and equipment. Exhibit 3 shows the amount allocated by district and Exhibit 4 shows the amount expended by district and school type for fiscal years 2006 and 2007.

Additionally, Appendix B shows further detail regarding grant awards and expenditures for each district and school selected for testing.

Exhibit 3

**Grant Allocations
Elementary and Secondary Schools by District
Fiscal Years 2006 and 2007**

District	Elementary		Secondary		Total	Percent of Total
	FY 2006	FY 2007	FY 2006	FY 2007		
Carson City	\$ 1,171,822	\$ 774,188	\$ 157,596	\$ 182,791	\$ 2,286,397	2.49%
Churchill	651,095	287,213	171,636	146,497	1,256,441	1.37%
Clark	23,221,656	29,270,369	2,755,355	3,642,402	58,889,782	64.10%
Douglas	1,020,001	495,984	183,469	132,514	1,831,968	1.99%
Elko	2,133,201	864,610	538,414	268,997	3,805,222	4.14%
Esmeralda	89,960	79,600	11,990	11,990	193,540	0.21%
Eureka	67,941	42,638	17,930	10,650	139,159	0.15%
Humboldt	493,670	414,826	179,430	245,231	1,333,157	1.45%
Lander	129,720	88,133	196,290	-	414,143	0.45%
Lincoln	271,417	111,869	89,027	23,346	495,659	0.54%
Lyon	1,575,899	1,044,666	400,683	434,442	3,455,690	3.76%
Mineral	19,300	5,500	2,541	4,500	31,841	0.03%
Nye	473,804	236,959	94,486	130,456	935,705	1.02%
Pershing	107,325	174,949	-	37,065	319,339	0.35%
Storey	88,580	110,139	16,512	14,074	229,305	0.25%
Washoe	7,789,645	4,031,351	1,921,243	1,646,779	15,389,018	16.75%
White Pine	533,987	262,646	43,473	16,348	856,454	0.93%
Charter Schools	-	-	-	15,700	15,700	0.02%
Totals	\$ 39,839,023	\$ 38,295,640	\$ 6,780,075	\$ 6,963,782	\$ 91,878,520	100.00%

Source: Department of Education grant database.

Exhibit 4

**Grant Amounts Expended and Unexpended
Elementary and Secondary Schools by District
Fiscal Years 2006 and 2007**

District	Elementary		Secondary		Total	Unexpended
	FY 2006	FY 2007	FY 2006	FY 2007		
Carson City	\$ 537,029	\$ 1,360,364	\$ 11,930	\$ 293,578	\$ 2,202,901	\$ 83,496
Churchill	135,805	699,672	12,080	227,363	1,074,920	181,521
Clark	7,843,384	38,168,523	961,875	3,073,589	50,047,371	8,842,411
Douglas	739,225	721,939	148,881	155,534	1,765,579	66,389
Elko	455,156	2,432,275	182,526	550,439	3,620,396	184,826
Esmeralda	21,669	129,169	935	22,876	174,649	18,891
Eureka	-	82,626	-	28,580	111,206	27,953
Humboldt	245,399	581,559	135,374	246,975	1,209,307	123,850
Lander	43,256	138,551	121,864	48,777	352,448	61,695
Lincoln	87,879	284,355	70,346	41,954	484,534	11,125
Lyon	571,812	1,969,263	173,464	647,056	3,361,595	94,095
Mineral	16,732	3,330	234	995	21,291	10,550
Nye	271,678	400,217	13,713	187,566	873,174	62,531
Pershing	107,325	174,949	-	37,065	319,339	-
Storey	14,854	153,388	10,425	18,631	197,298	32,007
Washoe	1,766,139	9,582,398	620,698	2,684,400	14,653,635	735,383
White Pine	237,058	539,369	3,998	52,874	833,299	23,155
Charter Schools	-	-	-	10,182	10,182	5,518
Totals	\$13,094,400	\$57,421,947	\$2,468,343	\$8,328,434	\$81,313,124	\$10,565,396

Source: Department of Education grant database.

Scope and Objectives

This audit is required by NRS 385.3789(4) and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included grant expenditures funded from the Account for Programs for Innovation and the Prevention of Remediation at Carson City, Clark, Elko, Lyon, and Washoe County School Districts, and at selected schools within those districts. It also included a review of grant administration activities at the Commission and NDE. Our audit covered grants allocated for the periods ended June 30, 2006 and 2007. The objectives of our audit were to determine whether:

- Program expenditures at the selected schools and school districts were in compliance with laws, NDE and Commission policies and procedures, and the terms of the grant awards.
- Grant allocations were distributed, administered, and reported in accordance with laws, NDE and Commission policies and procedures, and the terms of the grant awards.

Findings and Recommendations

Schools and school districts did not always spend grant funds received from the Account in accordance with laws, Commission and NDE policies and procedures, and the terms of the grant awards. Approximately \$6 million of expenditures made by schools and school districts was not approved by the Commission at all, or at the time the expenditure was incurred. In addition, NDE and the Commission on Educational Excellence can improve activities related to administering and monitoring program funds. For instance, grant period and reporting deadlines did not coincide with the normal school year and contributed to schools and school districts submitting inaccurate and untimely reports. Additionally, NDE did not always distribute funds timely from the Account in accordance with State law. Finally, policies and procedures are not adequate to ensure equipment purchased with Account funds is properly safeguarded, tracked, reported, and monitored. Most of these issues occurred because the program was new for 2006 and 2007.

Policies Over Expenditures and Budget Amendments Can Be Strengthened

The Commission on Educational Excellence lacks adequate controls over expenditures and budget amendments to ensure grant funding is used as approved. Approximately \$6 million in expenditures made by the 60 schools and school districts in our sample were for items that were not approved by the Commission. These expenditures were either never approved, made prior to approval of a budget amendment, or were made after NDE approved a budget amendment. Furthermore, budget amendments lacked adequate documentation to easily determine the nature and extent of requested changes. Finally, the Commission allocated elementary school funding for use in secondary schools.

Expenditures Not Always in Compliance With Commission Approved Grant Budgets

Schools and school districts did not always expend funds in compliance with the terms of grant awards. Over \$580,000 in expenditures were made on items that were specifically rejected or never presented to the Commission for approval. Some expenditures were made from revised grant budgets where rejected items were never removed, but the budgets were approved by NDE. These errors occurred because the Commission and NDE have not established adequate policies, procedures, and controls to ensure funding is being used by schools and school districts as approved.

Expenditures Made Without Commission Approval

Schools and school districts did not spend grant funding in accordance with grant budgets approved by the Commission. Our testing of expenditures found nearly 8% of expenditures tested, totaling over \$580,000 were for items and services that were not reviewed or approved by the Commission. Since state law prescribes the Commission as the authority to determine how funding from the Account is to be spent, schools and school districts should have requested approval from the Commission through grant budgets or amendments to grant budgets, for all items necessary to implement requested programs.

Schools and school districts submitted requests for funding from the Account which detailed the manner in which the school or school district intended to use the funds. Grant budgets, submitted with allocation requests, specified the categories schools and school districts intended to expend funds from and included: salaries, benefits, professional services, property services, travel, supplies, dues and fees, and equipment. The Commission fully funded some allocation requests, partially funded others, and did not provide funding in some cases. In certain instances, when partially funding a grantee request, the Commission specified items, programs, or categories to eliminate or reduce from the original grant budget request.

Our review of expenditure transactions found 70 of 862 were for items or services that were initially rejected or never presented to the Commission for approval. Exhibit 5 shows the number of unapproved expenditures found by district.

**Expenditures Not Approved By Commission
Districts Reviewed**

District	Number Tested	Number Not Approved	Amount
Carson City	90	3	\$ 3,952
Clark	437	27	401,549
Elko	90	10	52,422
Lyon	90	10	16,810
Washoe	155	20	107,078
Totals	862	70	\$581,811

Source: Auditor testing from grant expenditures and grant budgets.

Note: If the Commission rejected items on the original budget request, we considered the subsequent purchase of those items to be an unapproved expenditure. Furthermore, even though some of the expenditures were approved by the Commission through the budget amendment process, none of the amendment documentation we reviewed specified the budget changes being requested including items once rejected by the Commission. As a result, the Commission was not provided adequate information to evaluate the merits of the amendment including the rejected items.

Expenditures not approved included overtime, computer hardware, software programs, and other supplies. Some of these expenditures were made only months after funding was awarded. For instance, Clark County School District purchased a software license for \$200,000 in May 2006 from its district-wide grant. However, the Commission had denied funding for this type of expenditure during the grant award process in January 2006.

Revised Grant Budgets Not Proper

Revised grant budgets did not always comply with Commission directives which resulted in the expenditure of Account funds that were not approved by the Commission. About 20% (14 of 70) of the revised budgets in our sample did not remove or reduce funding as detailed by the Commission. NDE approved revised budgets which resulted in schools and school districts viewing these items as being properly approved.

NRS 385.3785 establishes the Commission as the authority to determine how money from the Account is to be allocated. The Commission approved grant budgets by category and subcategory which defined how the allocated funding should be used.

When allocation requests were not fully funded, the Commission usually specified programs or categories to reduce or eliminate. Schools and school districts were required to revise the budgets submitted with original allocation requests when the Commission reduced or denied certain programs for funding. The Commission relied on NDE to review revised budgets and ensure reductions were made as specified, even though policies had not been established detailing NDE's responsibilities. Our review of revised budgets identified instances where NDE required grantees to make additional revisions to comply with Commission reductions; however, we found more instances where NDE allowed schools and school districts to include rejected items.

Some of the expenditures reviewed and noted earlier in our report were for items that were rejected by the Commission but included in revised budgets. For instance, one school in Elko County School District was instructed to remove a math software program from its grant application budget. However, the school removed or reduced other categories and retained the math program in its revised budget. NDE approved the revised budget. In fiscal year 2007, the grantee purchased the program at a cost of nearly \$34,000.

Expenditures were made without Commission approval because adequate policies, procedures, and controls over expenditures have not been established. Specifically, the Commission should develop policies requiring schools and school districts to expend funds in accordance with approved grant budgets. Policies should include actions that may be taken by the Commission regarding noncompliance. Further, the Commission needs to determine and establish NDE's responsibilities regarding the approval of revised budgets. Finally, based on Commission adopted policies and procedures, NDE needs to develop controls that provide reasonable assurance that expenditures and revised budgets are in accordance with Commission approvals.

Grant Budget Amendments Contribute to Expenditure Problems

Expenditures made by schools and school districts were not always proper because amendments requesting changes to grant budgets were not always prepared timely or approved by the Commission. As a result, nearly \$5.5 million in expenditures made by schools and school districts were improper. This occurred because the

Commission and NDE have not established adequate policies, procedures, and controls to ensure amendments are prepared prior to expenditures being incurred or properly approved.

Expenditures Made Prior to Amendment Approval

Schools and school districts spent funds prior to requesting and receiving amendment approval. Over \$5.1 million in expenditures from our sample schools were incurred before receiving Commission approval. Some improper expenditures resulted from schools and school districts exceeding original allocations, while others were for items the Commission never approved. This resulted in NDE reporting to the 2007 Legislature that more funding would be reverted and available for fiscal years 2008 and 2009 than actually was. Further, spending funds without Commission approval violates statute which designates the Commission as having the authority to determine how funding from the Account is to be expended.

Our review of expenditure transactions identified 56, or about 6%, that were incurred prior to receiving Commission approval of amendments. In addition, we reviewed each amendment processed for our test schools. Of 89 amendments tested in our sample, we found schools and school districts made expenditures exceeding their authority, or for items not yet approved, on 42. The expenditures on these 42 amendments totaled over \$5.1 million and almost all of the expenditures occurred during the fiscal year 2007 grant period. Exhibit 6 shows the amount of expenditures incurred prior to receiving amendment approval.

**Expenditures Prior to Budget Amendment Request or Approval
Districts Reviewed**

District	Budget Amendments	Expenditures Prior to Request	Expenditures Prior to Approval
Carson City	0	\$ -	\$ -
Clark	22	2,204,658	4,696,892
Elko	8	77,706	104,158
Lyon	7	88,284	88,284
Washoe	5	4,633	258,418
Total	42	\$2,375,281	\$5,147,752

Source: Auditor testing from budget amendments in NDE files and District provided expenditure transaction reports.

Our review of amendments found schools and school districts did not have approval for, or exceeded amounts budgeted for several categories including salaries, benefits, professional services, supplies, and equipment. For example, one school in Lyon County School District spent nearly \$16,000 on general supplies prior to requesting an amendment from the Commission. At the time of the purchase, the school's grant budget did not include any authority for general supplies.

Some schools and school districts requested approval for expenditures after the conclusion of the grant period because expenditures had been made that exceeded approved grant budgets. For example, the Clark County School District district-wide grant had a budget of \$1.5 million for computer supplies as of April 2007. However, as of June 30, 2007, the district had made purchases in this category totaling almost \$1.9 million. Exhibit 7 provides the original grant budget, each amendment change, expenditures, and any amounts over or under expended for subcategory 671, computer supplies for Clark County School District's district-wide grant.

Exhibit 7

**Amounts (Over) / Under Expended by Grant Budget and Amendment
Computer Supplies Expenditure Subcategory
for 2006 and 2007**

Description	Date Approved ⁽¹⁾	Grant Budget	Budget Amendment	Total Allocated	Expenditures	Amount (Over) / Under Expended
FY 06 Budget	02/15/2006	\$292,138		\$ 292,138	\$ 340,943	\$ (48,805)
FY 07 Budget	02/15/2006	\$286,188		\$ 578,326	\$ 453,739	\$ 124,587
Amendment #1	01/08/2007		\$117,532	\$ 695,858	\$ 456,089	\$ 239,769
Amendment #2	01/23/2007		\$ (51,000)	\$ 644,858	\$1,290,102	\$(645,244)
Amendment #3	04/18/2007		\$874,569	\$1,519,427	\$1,882,135	\$(362,708)
Amendment #4	11/08/2007		\$383,471	\$1,902,898	\$1,882,135	\$ 20,763

Source: Grant expenditure transaction reports provided by Districts, grant budgets, and budget amendments from NDE files.

Note: ⁽¹⁾ Only amendment #2 was approved by the Commission. All other budgets and amendments received approval from the Department of Education.

NRS 385.3785 provides the Commission the authority to determine how grant money will be allocated and spent. Therefore, schools and school districts need approval from the Commission to redistribute funds. Furthermore, even though NDE amendment policies specify that expenditures should not be incurred until after approval, policies do not require districts to attest that expenditures have not been made. In addition, the Commission does not have policies regarding measures that may be taken if infractions of policies are found. Therefore, the Commission and NDE should adopt policies, procedures, and controls to provide reasonable assurance that districts are not expending funds prior to receiving approval for amendments.

NDE Approved Some Budget Amendments

Some amendments to original budgets were approved by NDE instead of the Commission. Expenditures were made without approval when NDE approved amendments because state law assigns the responsibility of determining how Account funding may be expended to the Commission. While it may be efficient for NDE to approve certain amendments, the Commission did not formally designate this function during our audit period.

Of 89 amendments that transferred funds between categories and/or subcategories, 28 received only NDE approval. As a result, about 4% of expenditures

tested, totaling \$380,000, were not in accordance with Commission approved budgets. Improper amendment approvals also resulted in denied or rejected items being purchased. For instance, the Commission denied funding for several supply subcategories on the Clark County School District district-wide grant. However, NDE approved an amendment that transferred over \$500,000 from the salary and benefit categories to supplies subcategories which were denied on the original budget. Since the Commission did not review this amendment, we could not determine if the requested changes were in compliance with Commission intent.

The Commission and NDE had not fully developed policies, procedures, and controls over the amendment process for S.B. 404 funding. Although the Commission adopted amendment policies in October 2007, additional procedures are needed to ensure the proper authority reviews and approves budget amendments.

Grant Budget Amendment Documentation Not Adequate

Documentation used to change original grant budgets was not sufficient to easily determine the changes being requested by the grantee. As a result, items originally rejected by the Commission were amended back into certain grants. This occurred because the Commission did not have adequate policies regarding the amendment process and relied on NDE to develop documentation.

Most grantees in our sample requested at least one amendment to modify grant budgets. A majority of these amendments requested significant modifications from original budgets. However, documentation submitted to the Commission was not adequate to easily determine where or why changes were being requested. Because amendment documentation did not differ from original budgets, increases or decreases to categories were not specified. Any increase or decrease had to be computed by comparing the prior budgeted amounts to the requested amendment. Exhibit 8 shows an example of the information provided and the resulting calculation needed to determine where increases and decreases in funding were occurring.

**Programs for Innovation and the Prevention of Remediation
Comparison Between Approved and Amended Budgets**

Category	Description	Total Budget ⁽²⁾	Amended Budget Documentation Submitted	Auditor Calculated Change
100	Personnel	\$200,172	\$167,331	\$(32,841)
200	Benefits	73,223	72,863	(360)
300	Professional Services	26,001	15,507	(10,494)
500	Services	5,800	4,963	(837)
600⁽¹⁾	Supplies			
619	Instructional Supplies	25,807	19,152	(6,655)
671	Computer Supplies	77,400	60,286	(17,114)
641	Training Books/Periodicals	11,435	8,464	(2,971)
681	Items of Value	41,702	112,137	70,435
800	Dues		837	837
Totals		\$461,540	\$461,540	\$ 0

Source: Grant budgets, budget amendments, and auditor calculated changes.

Notes: ⁽¹⁾ Supplies subcategories have been included to show transfer of funding.

⁽²⁾ Column includes total approved FY 2006 and 2007 budgets less FY 2006 expenditures.

Only 12% of the amendments in our sample included documents required by NDE policy explaining significant changes to original grant budgets. Most of the amendments lacked explanations, or adequate explanations to ascertain the reasons why original budgets were not used and how the requested changes complied with the original grant request. For example, one school requested a reduction of \$47,000 to books and periodicals, equipment, and instructional kit supplies subcategories to increase budget authority for the computer supplies subcategory. However, the request did not provide the Commission with information on why the school's needs for books and periodicals, equipment, and instructional kits had changed.

Furthermore, schools and school districts were not required to notify the Commission if amendments requested the inclusion of items previously denied. Our review found eight grants where amendments included programs and items that had been previously denied. For example, one grantee requested over \$70,000 in laptops be added to the grant. These laptops were originally denied by the Commission. While

items may have been denied due to limited funding, this should be relayed to the Commission so an informed decision regarding the appropriateness of each amendment may be made.

Amendment forms, developed by NDE, were not adequate to ensure sufficient information was provided. Forms did not require schools and school districts to calculate monetary changes, submit narratives, or notify the Commission if requested items had been previously denied. While some schools and school districts provided this information on a supplementary schedule, it was not always detailed enough to appropriately determine the request. Further, forms should provide enough information for the Commission to easily review the appropriateness of each request. This should include such information as:

- The monetary changes to categories and/or subcategories being reduced or increased.
- Original budget amounts for categories as allocated by the Commission.
- Sufficient narrative regarding why amounts were not used as previously allocated, what will be purchased with increased allocations, and how that aligns with the original grant request.
- Whether items being requested were previously denied by the Commission.

Elementary Funding Approved for Secondary Schools

Elementary funding, designated in S.B. 404, was used for secondary programs. We found over \$1 million in elementary funding was used for secondary schools. As a result, some elementary schools were only partially funded. This occurred because the Commission approved district-wide elementary grants that included funding for secondary schools.

S.B. 404 appropriated \$91.9 million to be allocated by the Commission to Nevada's schools and school districts. Of this amount, \$78 million was designated for grades kindergarten through 6 and \$13.9 million for grades 7 through 12. Funding from the amount designated for grades kindergarten through 6 could be used for grades 7 through 12 only if all of these funds were not needed for elementary school purposes.

Two districts in our sample, Elko County and Clark County, prepared one district-wide request for funding from the Account. Combined, these two grants accounted for almost \$22 million, and nearly 24% of all allocations made from the Account. These requests included programs and items for elementary and secondary schools; yet, the Commission allocated funds from the elementary portion of Account funding. While neither district had information readily available on the total of the district-wide amounts used in secondary schools, we found at least \$1 million in equipment purchases made from these district-wide grants were for secondary schools.

Some elementary grant requests may have been partially funded because the Commission did not have adequate procedures in place to properly allocate funding when grant requests included elementary and secondary programs. Beginning in fiscal year 2008 school districts were no longer eligible for district-wide grants; however, consortiums of schools, which may include a combination of elementary and secondary schools, can still apply. Therefore, policies, procedures, and controls should be developed to ensure funding is awarded and utilized as intended by the Legislature.

Grant Deadlines Create Challenges for Proper Administration

Grant periods and reporting deadlines do not allow for schools and school districts to properly account for all expenditures. As a result, annual financial reports were not timely or accurate. Additionally, distributions of funding occurred periodically during the grant period with some distributions occurring over a year after the statutory deadline. Finally, the return and deposit of unused funding was not always performed in a timely manner. Establishing and adhering to appropriate timeframes will assist the Commission, NDE, and schools and school districts in properly accounting for, reporting, and monitoring grant activities.

Current Procedures and Reporting Deadlines Result in Untimely and Inaccurate Final Reports

Some schools and school districts included in our sample were unable to submit timely and accurate annual financial reports. This occurred mainly because grant periods and reporting deadlines did not coincide with the end of the school year. As a result, schools and school districts did not return all unused funds. In addition, some reports were not accurate because schools and school districts processed improper

accounting transactions. Revisions to procedures over end-of-year reporting, including grant period and reporting dates, should help alleviate future problems.

Reports Not Timely

Grant periods established by the Commission did not account for grant activities occurring through the end of the school year. As a result, about 16% of annual financial reports were not submitted by established deadlines.

The Commission established grant periods to coincide with the state fiscal year which ends on June 30. Following this, annual financial reports for each grant were required to be submitted by July 31 of each grant year. However, schools and school districts continued to incur expenditures for salaries, benefits, and summer school programs until the end of August, or school year end. Personnel and summer school programs were approved by the Commission even though these expenditures continued after the end of the grant period.

In order to account for all grant expenditures, some schools and school districts did not submit reports by established deadlines. Of the 117 reports included in our sample, about 16% did not substantially meet reporting deadlines. Some reports were submitted several months after the July 31 reporting deadline. Exhibit 9 provides a breakdown by district on the timeliness of reports for grants included in our sample.

Exhibit 9

**Timeliness of Annual Financial Reports
By District for 2006 and 2007**

District	Reports	Substantially Met Commission Deadline	1-2 Months Late	3-4 Months Late	Total Late Reports
Carson City	11	10	1		1
Clark	61	57		4	4
Elko	12	3	5	4	9
Lyon	11	6	5		5
Washoe	22	22			0
Totals	117	98	11	8	19

Source: Annual grant financial reports from NDE files and auditor testing.

Although the grant period and subsequent reporting deadlines were established to coincide with the State’s fiscal year end, this is not required by statute. The Legislative Counsel stated in a legal opinion shown in Appendix C:

The plain language of NRS 385.3785 provides that an application for money from the Account, “may be approved by the Commission for participation for a period not to exceed 2 years.” NRS 385.3785(1)(c). By its plain terms, NRS 385.3785 authorizes a grant period of up to 2 years; however, NRS 385.3785 does not limit this period to falling within a single biennium of the fiscal cycle of the State.

Therefore, the Commission can establish grant periods to coincide with the school year and modify reporting periods accordingly.

Reports Not Accurate

As noted above, grant periods established by the Commission did not allow for expenditure activities occurring through the end of the school year. As a result, some annual financial reports submitted by established deadlines were inaccurate. Because some schools and school districts anticipated future expenditures to meet reporting deadlines, about \$172,000 in unused funding was not returned to NDE.

Some schools and school districts substantially complied with annual financial report deadlines and submitted reports near July 31. However, many reports submitted by this date were not accurate. Nearly 31% of annual financial reports submitted near July 31 were inaccurate. Exhibit 10 shows the number of reports submitted by July 31 of each year that were inaccurate.

Exhibit 10

**Inaccurate but Substantially Timely Reports
By District for 2006 and 2007**

District	Substantially Met Commission Deadline	Inaccurate	Percent Inaccurate
Carson City	10	5	50%
Clark	57	23	40%
Elko	3	0	0%
Lyon	6	2	33%
Washoe	22	0	0%
Totals	98	30	31%

Source: Annual grant financial reports from NDE files and auditor testing.

In attempting to meet reporting deadlines, schools and school districts employed varying techniques that resulted in inaccurate reports. For instance, Carson City School District submitted two reports for 2007. Reports submitted by the July 31 deadline did not contain all program costs. Therefore, the District submitted revised reports in September of 2007 accounting for all program costs and adjusting the total funds to be returned to NDE. In addition, Clark County School District estimated salaries, benefits, and other costs for 2007 to be attributed to grants through the end of the school year. In most instances, these estimates differed from final actual expenses. As a result, Clark County School District used \$172,000 less than reported on the annual financial reports. Although Clark County School District officials reported working with NDE to identify how much should have been reverted, NDE did not have accurate reports to determine the proper amount to be returned to the Account.

Revising grant periods to coincide with the end of the normal school year may help schools and school districts provide accurate reports. In addition, revising reporting deadlines will reduce the need for making estimates. Therefore, schools and school districts will be better able to prepare accurate and timely reports and return the proper amount of funds to the Account.

Other Errors Affect Annual Financial Report Accuracy

Some annual financial reports were inaccurate because schools and school districts made improper accounting entries and supporting schedules did not reflect all grant activity. Policies, procedures, and controls over annual financial reporting are essential to provide reasonable assurance that reports are reflective of all grant activities.

Some schools and school districts prepared accounting entries transferring expenditures between fiscal years, grants, and expenditure subcategories. In certain instances, these entries were made because expenditures exceeded Commission approvals. For example, Elko County School District processed several accounting entries that transferred amounts in excess of approved allocations to other grants and expenditure subcategories. In one instance, a school overspent nearly every subcategory during the grant period. Expenditures were transferred to other subcategories within the grant, to the district-wide grant, and to the general fund. These

transfers reduced or eliminated remaining allocations where all funding had not been used. We requested Elko County School District provide clarification regarding the appropriateness of these entries. Elko County School District responded:

...regarding whether the district chose to process a journal entry instead of amendments, the adjustments that are currently being scrutinized took place after the Board of Trustees had approved the FY07 Final Augmented Budget. As a result, [we] did not submit a budget adjustment understanding the District's final budget had already been approved and could not be changed.... Regardless, this method to correct the over-expenditures was not appropriate and is not commensurate with good accounting practice or the regulations as prescribed by the Nevada Department of Education.

While many of the individual transactions noted in these entries were minimal, a significant number of entries were made to many of the grants. Furthermore, many of the over expenditures were transferred to the district-wide grant which reduced the amount returned at the end of the grant period.

Supporting schedules submitted with annual financial reports did not always reflect all grant activities. This occurred because some supporting schedules were not generated directly from district accounting systems. We found supporting documents where expenditures were reported at the amount allocated by the Commission even though actual expenditures exceeded those amounts.

Supporting schedules required by NDE should be reports generated directly from a district financial system. Otherwise, NDE will not have assurance annual financial reports are valid. Further, NDE does not have controls in place to verify the accuracy of submitted information. For example, NDE does not compare detailed transaction reports with supporting summary schedules. By doing this on a sample basis, the Commission and NDE will have greater assurance that supporting schedules are accurate and expenditures are properly approved.

Funding Distributions Not in Compliance With State Law

NDE did not distribute funding in fiscal year 2007 as required by statute. Even though statute requires the full distribution of funds by August 15, not all amounts were distributed, and some funds were received by school and school districts months after the deadline. Timely distributions are necessary to ensure grantees are able to proceed with program activities in order to achieve expected results.

The Commission allocated funding in January and May of 2006, for use in fiscal years 2006 and 2007. NDE required grantees to request allocated funds be distributed to them as needed throughout the grant period. Therefore, schools and school districts received periodic distributions throughout fiscal years 2006 and 2007. As a result, some school districts did not receive all funds they were allocated. For instance, Clark County School District did not receive over \$8 million in allocated funding. In addition, some distributions were made months after August 15, with some occurring over a year later. Pershing County School District received a distribution in November 2007, nearly 16 months after the August 15, 2006, distribution date.

NRS 385.3785 states the Commission is responsible for making allocations of money from the Account. These allocations must be distributed by August 15 of each year. In order to ensure our understanding of this statute was correct, we requested the Legislative Counsel provide clarification regarding the capability of NDE to distribute funds periodically after August 15, 2006. The legal opinion, shown in Appendix C, states:

...by its plain language, NRS 385.3785 requires that allocations by the Commission be distributed by August 15 of each year and does not give the Superintendent discretion to refuse to distribute or delay the distribution of an allocation made by the Commission. NRS 385.3785(1)(h). Therefore, it is the opinion of this office that the Superintendent must distribute all money allocated by the Commission by August 15 of each year and may not delay the distribution of money by distributing it throughout the term of the grant.

Grant distributions must be made timely so programs can be implemented for the current school year. Therefore, the Commission needs to develop policies to ensure funding is distributed to schools and school districts in compliance with statute. In addition, NDE should work with the Commission to ensure funds are allocated with enough time so NDE can make distributions by statutory deadlines.

Untimely Reversions and Deposits

Schools and school districts did not return unused funds to the Account in a timely manner. Furthermore, when funds were returned timely, NDE did not deposit funds in accordance with state law. The untimely return of funds and failure to follow state law resulted in the loss of about \$45,000 in interest earnings to the State.

NDE instructed schools and school districts to return unused Account funding at the end of the grant period. Further, NDE required annual financial reports be submitted which detailed used and unused funding for each grant. As noted previously, annual financial reports were not always filed by the deadline of July 31. Consequently, school districts did not always return funding in a timely manner. For instance, Elko County School District did not return nearly \$110,000 in unused funding until January 2008.

Furthermore, returned funding was not always deposited in a timely manner. Several of the checks returned to the State were not deposited until months after they were received. For instance, Washoe County School District returned \$735,000 to the State in August 2007, but the check was not deposited until December 2007. NRS 353.250 requires a deposit be made within 1 day after \$10,000 has been accumulated. However, NDE staff who received annual financial reports and district checks were not aware of this requirement. Exhibit 11 shows each check submitted by the school districts in our sample and the date deposited by NDE.

Exhibit 11

**Receipt and Deposit of Returned Funds
Grant Period Ended June 30, 2007**

District	Amount Returned	Check Date	Deposit Date	Number of Days to Receive Funds after July 31, 2007	Days to Deposit
Carson City School District	\$ 48,617	09/19/2007	12/19/2007	49	91
Carson City School District	\$ 34,880	09/19/2007	12/06/2007	49	78
Clark County School District	\$638,152	02/22/2008	03/06/2008	205	13
Elko County School District	\$109,547	01/08/2008	02/11/2008	160	34
Lyon County School District	\$ 94,096	11/27/2007	12/04/2007	118	7
Washoe County School District	\$735,383	07/31/2007	12/03/2007	0	125

Source: District checks and deposit slips from NDE files.

Even though NDE instructed schools and school districts to return unused grant funding, statute and grant terms did not address this requirement. Because these instructions were not specified, we requested the Legislative Counsel to provide clarification regarding NDE's authority to require the return of unused funds. As shown in Appendix C, Legislative Counsel stated:

...the Superintendent has the authority to require the return of unspent money at the end of a biennium or the end of the term of a grant, as appropriate, so long as that term is specified in the grant and does not conflict with any guidance or direction of the Commission. It is also the opinion of this office that to determine whether money must be returned to the Account, you must review the terms of each grant to determine whether it contains a provision which requires unspent money to be returned to the Account.

Based on this, future grant terms should specify unused funding will be returned to the Account. Furthermore, Commission policies should specify the date by which schools and school districts are required to return funds.

Safeguarding and Monitoring of Equipment Purchases Needed

The Commission has not provided adequate guidance to districts through policies to ensure equipment purchased with Account funding is being properly safeguarded, tracked, and monitored. Furthermore, NDE lacks procedures and controls to ensure districts file accurate and complete equipment reports with their annual financial reports, as required. Policies, procedures, and controls would provide greater assurance that items purchased with grant funds are adequately safeguarded to avoid the need for unnecessary replacement.

Equipment Not Found

Adequate controls are not in place to ensure equipment purchased with funding from the Account is properly safeguarded. During our audit, we were unable to locate nearly 6% of the items we tested. In certain instances, items alleged to be offsite in a teacher or student's possession were not sufficiently documented to verify the existence of the equipment. In addition, lists provided by districts detailing equipment locations and serial numbers were not always accurate, complete, or reported to NDE as required. Some equipment purchased by schools and school districts is highly susceptible to loss, theft, or misuse; therefore, better monitoring and control over these items is necessary.

NDE defines equipment with a cost exceeding \$1,000 as items of value. Typically, items of value for the grants in our sample included laptops and computers, projectors, interactive electronic whiteboards, and audio enhancement systems.

Of the 60 school and district-wide grants in our sample, 28 purchased equipment with grant funding for a total of nearly \$2.8 million. About 2,000 equipment items were

purchased with grant funds. Of these items, we were unable to locate 128 during our onsite testing. Exhibit 12 shows equipment purchased and missing by district for those grants included in our sample.

Exhibit 12

**Equipment Testing
Fiscal Years 2006 and 2007**

District	Items Tested	Total Cost	Items Missing	Cost of Missing Items
Carson City ⁽¹⁾	0	\$ -	0	\$ -
Clark	1,197	1,665,865	48	65,688
Elko	203	277,372	40	63,253
Lyon	200	348,373	7	9,626
Washoe	426	487,070	33	31,295
Total	2,026	\$2,778,680	128	\$169,862

Source: Auditor observations of assets and invoices provided by districts.

Note: ⁽¹⁾ Carson City grants in our sample did not report any equipment purchases. However, during expenditure testing we noted one school with equipment purchases coded to the wrong budget category. We did not verify the physical existence of this equipment but determined the district should have reported these items to NDE with their annual financial reports.

Equipment Offsite Contribute to Errors Noted

Some equipment which we were unable to locate were represented to be offsite with teachers or students. However, documentation detailing the responsible party and item description were not always available or adequate. For instance, we were unable to locate a laptop that was reported as being in the possession of a student at home, and the school did not have any documentation supporting this representation.

Districts had different policies regarding the loaning of equipment. Certain districts had policies which required documentation be completed and detailed the person with possession of the equipment, the reason for use, and who was responsible for replacement if the equipment was lost or stolen. Other districts did not have policies or documentation requirements. Furthermore, the Commission has not established its own policies regarding this activity. Because some equipment can be easily converted to personal use, it is important for the Commission to develop policies regarding these activities.

Equipment Listings Not Complete or Accurate

District equipment listings were often inaccurate and incomplete. For example, the electronic whiteboards on one district's lists could not be verified because the serial numbers did not match those identified at the location listed for the asset. In addition, one district could not provide the location for nearly \$290,000 in equipment purchases. Eventually, we were able to verify their existence because a vendor for the district was able to provide the locations where items were installed. However, better monitoring and tracking of assets is necessary to ensure loss or misuse does not occur.

Supplemental Reports Not Submitted as Required

Districts did not always submit equipment reports with annual financial reports as required by NDE policy. Out of 42 equipment reports that should have been submitted, only 8 were. In addition, 4 of the 8 reports submitted were not complete or accurate. Exhibit 13 shows a breakdown by district of reports submitted.

Exhibit 13

Equipment Supplemental Reports Submitted Fiscal Years 2006 and 2007

District	Required Reports	Reports Submitted	Reports Accurate and Complete	Percent Submitted	Percent Accurate
Carson City	1	0	0	0%	0%
Clark	15	0	0	0%	0%
Elko	9	4	0	44%	0%
Lyon	6	0	0	0%	0%
Washoe	11	4	4	36%	36%
Total	42	8	4	19%	10%

Source: Annual financial reports from NDE files.

Department of Education policy requires grantees who purchase equipment to submit a report to NDE at the conclusion of each grant year. Reports must have the location, including the building and room number, of each asset purchased. However, NDE did not enforce this requirement when annual financial reports were submitted. Staff indicated they were unaware the requirement existed when they were processing annual financial reports.

Reports are important because they provide the Commission with information on purchases that are significant to grants. Most equipment purchases are for several thousand dollars and represent a large portion of the overall grant expenditures. Without the reports being submitted, the Commission lacks assurance that equipment is accounted for and maintained by the grantee.

Policies, Procedures, and Controls Needed

The Commission and NDE do not have policies, procedures, and controls regarding the safeguarding, monitoring, and maintenance of equipment purchased with Account funds. This lack of policies and controls contributed to districts' inability to locate certain assets. State law requires agencies to track, safeguard, and verify an asset's existence periodically. These procedures are required to ensure state resources are not used to replace items unnecessarily or too often. However, the Commission lacks assurance that future resources will not be requested to replace items prematurely.

Recommendations

1. Work with the Commission on Educational Excellence to develop and adopt policies regarding the administration of grants issued from the Account for Programs for Innovation and the Prevention of Remediation. Policies should detail NDE responsibilities and any authorization to perform specific functions on behalf of the Commission.
2. Develop controls to provide reasonable assurance that Account funds are used as approved by the Commission.
3. Develop controls to ensure revised grant budgets include only items approved by the Commission during the grant awarding process.
4. Implement reasonable procedures and controls to ensure expenditures have not occurred prior to budget amendment requests.

5. Consider developing policies regarding measures that may be enforced when violations of Commission policies and procedures occur.
6. Revise procedures and controls to ensure budget amendments are approved by the proper authority.
7. Revise budget amendment forms to request sufficient information to easily determine amendment changes, amendment explanations, and if requested changes comply with adopted policies.
8. Develop policies, procedures, and controls to ensure funding is awarded and utilized as intended by the Legislature.
9. Consider revising grant periods and reporting deadlines to allow for more accurate accounting and reporting of grant activities.
10. Ensure reporting accuracy by developing controls to verify supplementary schedules agree to district accounting records.
11. Distribute all grant funding by August 15 of each grant year.
12. Work with the Commission on Educational Excellence to ensure meetings regarding the approval of grant allocations are held so that sufficient time remains for NDE to distribute funding by August 15.
13. Specify the requirement to return unused funding, including due dates, in grant applications and award information.
14. Deposit returned funds in accordance with state law.
15. Implement procedures and controls to ensure equipment purchased with Account funding is adequately monitored, tracked, and safeguarded.
16. Develop procedures and controls to ensure all grantees with equipment purchases submit required reports.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Account for Programs for Innovation and the Prevention of Remediation, we interviewed Department of Education management and staff and Commission on Educational Excellence members. We reviewed applicable laws, regulations, policies, and procedures significant to the administration of the Account. We reviewed the Account's financial information, reports, budgets, legislative committee minutes, and other information related to the Account's origin and administration. Furthermore, we documented and assessed Commission and NDE policies and controls related to expenditures, amendments, reporting, distributions, and items of value.

To accomplish our objective, we reviewed a total of 60 grants from the 5 school districts that received the most Account funding. Of the 60 grants included in our sample, we judgmentally selected 18 based on grant size and those with equipment purchases. In addition, we judgmentally selected one district-wide grant from each of the 5 districts. We randomly selected the remaining 37 grants. See Appendix B for more information regarding those schools selected for testing.

To evaluate the controls over allocated funds, we selected 15 expenditures from each grant or all expenditures for the grant if it had less than 15. Five expenditures were judgmentally selected based on size, transaction date, and type of purchase. In addition, we randomly selected 10 expenditures from each grant and verified purchases were approved by the Commission, were mathematically correct, coded correctly, sales tax was not paid, and district policies were followed. We also compared expenditures to original grant requests, revised budgets, and amendments to determine if expenditure transactions were made in accordance with Commission allocations. Furthermore, we compared dates expenditures were made against the dates amendments were requested and approved.

To determine if grant budget amendments were completed in compliance with Commission policies and procedures, we reviewed amendments for each of the grants included in our sample. We identified whether amendments were properly approved through a review of Commission meeting minutes. Also, we calculated the changes being requested through each amendment. For each category and subcategory increase of \$5,000 or more, we compared expenditure transaction reports, identifying and totaling all purchases made prior to the request and approval of each amendment. In addition, we reviewed budget amendment documentation to determine its adequacy.

To evaluate the accuracy and timeliness of annual financial reports, we documented NDE and district procedures for completing annual financial reports. We determined if reports were accurate by comparing annual financial reports to expenditure transaction reports received from each district. We also reviewed the timeliness of reports by comparing the date the report was received and reviewed by NDE.

Furthermore, we reviewed the disbursement dates for each district receiving allocations from the Account. We compared the dates of distribution with the requirements of state law.

We also determined the accuracy of the amount of funding reverted by each grant included in our sample. In addition, we identified the amount of time districts took to remit funds and when the deposit of funds was made. Finally, we documented the amount of unrealized interest due to the untimely return and deposit of funds.

Furthermore, we requested equipment listings from sample grantees and compared them to accounting records. Additionally, we compared grant budgets, transaction reports and invoices to ensure our equipment listings were complete. Furthermore, we physically verified the existence of equipment at sites in each district. To decrease distractions while students were in the classroom, most of our onsite school testing was completed outside of regular school hours, and during the first few weeks of the summer. We notified each district of the schools that had been selected for onsite testing. Each school provided staff to assist us in locating equipment.

Finally, to confirm our understanding of the statutory distribution dates and the legal requirements for reverting unused allocations, we requested a legal opinion from the Legislative Counsel. A copy of the Legislative Counsel's legal opinion is included in Appendix C.

Our audit work was conducted from December 2007 to January 2009. 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.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Superintendent of Public Instruction. On September 10, 2009, we met with Department of Education officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 43.

Contributors to this report included:

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Appendix B
Grant Awards and Expenditures
Schools and School Districts in Sample
Fiscal Years 2006 and 2007

<i>Carson City School District (CSD)</i>	FY06	FY07	Total	FY06	FY07	Total	Amount
Test Schools	Allocated	Allocated	Allocated	Expended	Expended	Expended	Unexpended
Grace Bordewich Mildred Bray	\$ 140,000	\$ -	\$ 140,000	\$ 1,140	\$ 137,467	\$ 138,607	\$ 1,393
Eagle Valley Middle School ⁽¹⁾	88,375	53,375	141,750	38,102	91,147	129,249	12,501
Edith West Fritsch Elementary	-	199,026	199,026	-	185,497	185,497	13,529
Al Seeliger Elementary School	175,982	88,018	264,000	38,797	220,251	259,048	4,952
Carson Middle School ⁽¹⁾	26,250	26,250	52,500	399	43,077	43,476	9,024
District-wide Secondary Grant	77,625	74,625	152,250	-	138,307	138,307	13,943
Total of Test Schools	\$ 508,232	\$ 441,294	\$ 949,526	\$ 78,438	\$ 815,746	\$ 894,184	\$ 55,342
All Other CSD Schools	821,186	515,685	1,336,871	470,521	838,196	1,308,717	28,154
Total of all Grants CSD Schools	\$ 1,329,418	\$ 956,979	\$ 2,286,397	\$ 548,959	\$ 1,653,942	\$ 2,202,901	\$ 83,496

<i>Clark County School District (CCSD)</i>	FY06	FY07	Total	FY06	FY07	Total	Amount
Test Schools	Allocated	Allocated	Allocated	Expended	Expended	Expended	Unexpended
Adcock Elementary School	\$ 33,000	\$ 45,203	\$ 78,203	\$ 786	\$ 72,531	\$ 73,317	\$ 4,886
S F Bartlett Elementary School	123,939	147,685	271,624	39,312	161,660	200,972	70,652
Will Beckley Elementary School	49,751	85,696	135,447	8,458	68,455	76,913	58,534
R. Cartwright Elementary School	17,550	-	17,550	1,650	15,803	17,453	97
C H Decker Elementary School	225,708	144,695	370,403	76,840	293,563	370,403	-
Elbert Edwards Elementary School	62,952	109,472	172,424	44,666	114,726	159,392	13,032
Edith Garehime Elementary School	121,206	40,976	162,182	58,635	67,142	125,777	36,405
James Gibson Elementary School	20,469	12,387	32,856	488	29,253	29,741	3,115
George E Harris Elementary School	134,682	19,140	153,822	115,132	32,371	147,503	6,319
Howard Hollingsworth Elementary	335,571	126,118	461,689	174,645	212,070	386,715	74,974
Jay Jeffers Elementary	265,395	173,481	438,876	71,004	330,354	401,358	37,518
Robert E Lake Elementary School	192,067	167,684	359,751	24,702	293,245	317,947	41,804
Zel & Mary Lowman Elementary	29,349	26,277	55,626	8,573	37,806	46,379	9,247
Jo Mackey Elementary School	43,067	4,645	47,712	30,228	14,263	44,491	3,221
M.C. & J. Monaco Middle ⁽¹⁾	52,500	-	52,500	47,500	3,269	50,769	1,731
Joseph Neal Elementary School	195,000	65,000	260,000	15,205	148,565	163,770	96,230
William E Orr Middle School ⁽¹⁾	97,333	48,667	146,000	80,448	60,427	140,875	5,125
J D Smith Middle School ⁽¹⁾	78,004	39,002	117,006	1,858	81,483	83,341	33,665
Ethel Staton Elementary School	15,040	5,133	20,173	359	17,538	17,897	2,276
John Tartan Elementary	95,025	-	95,025	42,715	24,249	66,964	28,061
Ruby S Thomas Elementary School	162,988	116,740	279,728	67,883	122,380	190,263	89,465
Bill Y Tomiyasu Elementary School	63,000	30,000	93,000	1,500	53,363	54,863	38,137
Vegas Verdes Elementary School	68,666	34,333	102,999	11,956	82,954	94,910	8,089
Ed Von Tobel Middle School ⁽¹⁾	-	272,990	272,990	-	205,140	205,140	67,850
Cheyenne High School	97,809	-	97,809	2,329	95,431	97,760	49
Eldorado High School	59,153	-	59,153	1,409	32,820	34,229	24,924
Kathleen & Tim Harney Middle School ⁽¹⁾	14,603	33,848	48,451	10,753	5,135	15,888	32,563
Rancho High School	389,884	221,889	611,773	150,233	340,158	490,391	121,382
J D Smith Middle School ⁽¹⁾	156,003	78,002	234,005	8,886	124,830	133,716	100,289
Virgin Valley High School	14,000	7,000	21,000	7,641	8,830	16,471	4,529
District-wide Grant	6,524,461	13,921,144	20,445,605	1,166,783	18,233,578	19,400,361	1,045,244
Total of Test Schools	\$ 9,738,175	\$15,977,207	\$25,715,382	\$ 2,272,577	\$21,383,392	\$ 23,655,969	\$ 2,059,413
All Other CCSD Schools	16,238,836	16,935,564	33,174,400	6,532,682	19,858,720	26,391,402	6,782,998
Total of all Grants CCSD Schools	\$25,977,011	\$32,912,771	\$58,889,782	\$ 8,805,259	\$41,242,112	\$ 50,047,371	\$ 8,842,411

Source: Department of Education grant database.

Note: ⁽¹⁾Middle schools applied for elementary funds for 6th grade students and secondary funds for 7th and 8th grade students. Middle school grants selected could be either.

Appendix B
Grant Awards and Expenditures
Schools and School Districts in Sample
Fiscal Years 2006 and 2007
(continued)

<i>Elko County School District (ECSD)</i>	FY06	FY07	Total	FY06	FY07	Total	Amount
Test Schools	Allocated	Allocated	Allocated	Expended	Expended	Expended	Unexpended
Northside Elementary School	\$ 103,323	\$ 51,677	\$ 155,000	\$ 63,457	\$ 88,172	\$ 151,629	\$ 3,371
Spring Creek Elementary School	134,240	28,500	162,740	28,023	130,983	159,006	3,734
West Wendover Elementary School	194,768	48,245	243,013	-	243,013	243,013	-
Spring Creed Middle School ⁽¹⁾	63,089	2,300	65,389	43,939	18,426	62,365	3,024
Owyhee High School	190,475	-	190,475	75,458	90,014	165,472	25,003
District-wide Grant	1,007,402	390,267	1,397,669	153,705	1,229,766	1,383,471	14,198
Total of Test Schools	\$ 1,693,297	\$ 520,989	\$ 2,214,286	\$ 364,582	\$ 1,800,374	\$ 2,164,956	\$ 49,330
All Other ECSD Schools	978,318	612,618	1,590,936	273,100	1,182,340	1,455,440	135,496
Total of all Grants ECSD Schools	\$ 2,671,615	\$ 1,133,607	\$ 3,805,222	\$ 637,682	\$ 2,982,714	\$ 3,620,396	\$ 184,826

<i>Lyon County School District (LCSD)</i>	FY06	FY07	Total	FY06	FY07	Total	Amount
Test Schools	Allocated	Allocated	Allocated	Expended	Expended	Expended	Unexpended
Cottonwood Elementary School	\$ 200,000	\$ 100,000	\$ 300,000	\$ 41,048	\$ 253,188	\$ 294,236	\$ 5,764
Fernley Elementary School	92,603	185,206	277,809	60,582	212,153	272,735	5,074
Fernley Intermediate School ⁽¹⁾	-	193,209	193,209	-	181,938	181,938	11,271
Yerington Elementary School	247,033	123,517	370,550	127,965	235,629	363,594	6,956
Yerington Intermediate School ⁽¹⁾	106,189	53,094	159,283	27,129	114,227	141,356	17,927
District-wide Elementary Grant	481,742	143,014	624,756	172,248	444,851	617,099	7,657
Total of Test Schools	\$ 1,127,567	\$ 798,040	\$ 1,925,607	\$ 428,972	\$ 1,441,986	\$ 1,870,958	\$ 54,649
All Other LCSD Schools	849,015	681,068	1,530,083	316,304	1,174,333	1,490,637	39,446
Total of all Grants LCSD Schools	\$ 1,976,582	\$ 1,479,108	\$ 3,455,690	\$ 745,276	\$ 2,616,319	\$ 3,361,595	\$ 94,095

<i>Washoe County School District (WCSD)</i>	FY06	FY07	Total	FY06	FY07	Total	Amount
Test Schools	Allocated	Allocated	Allocated	Expended	Expended	Expended	Unexpended
Katherine Dunn Elementary School	\$ 133,333	\$ 66,667	\$ 200,000	\$ 13,696	\$ 184,201	\$ 197,897	\$ 2,103
Incline Elementary School	231,333	115,667	347,000	63,782	275,527	339,309	7,691
Robert Mitchell Elementary School	131,333	65,667	197,000	39,351	139,780	179,131	17,869
Agnes Risley Elementary School	161,580	80,790	242,370	28,111	214,166	242,277	93
Smithridge Elementary School	170,000	85,000	255,000	29,244	223,891	253,135	1,865
Grace Warner Elementary School	70,460	35,231	105,691	14,273	90,528	104,801	890
George Westergard Elementary School	24,566	13,034	37,600	7,455	24,653	32,108	5,492
Damonte Ranch High School	35,563	5,253	40,816	33,869	6,945	40,814	2
Darrell C Swope Middle School	43,283	53,116	96,399	11,410	84,346	95,756	643
Earl Wooster High School	126,574	126,574	253,148	40,679	194,286	234,965	18,183
District-wide Elementary Grant	3,489,056	1,742,790	5,231,846	588,217	4,467,225	5,055,942	175,904
Total of Test Schools	\$ 4,617,081	\$ 2,389,789	\$ 7,006,870	\$ 870,087	\$ 5,906,048	\$ 6,776,135	\$ 230,735
All Other WCSD Schools	5,093,807	3,288,341	8,382,148	1,516,750	6,360,750	7,877,500	504,648
Total of all Grants WCSD Schools	\$ 9,710,888	\$ 5,678,130	\$ 15,389,018	\$ 2,386,837	\$ 12,266,798	\$ 14,653,635	\$ 735,383

Grand Total for Test Schools	\$17,684,352	\$20,127,319	\$37,811,671	\$ 4,014,656	\$31,347,546	\$35,362,202	\$ 2,449,469
Grand Total for Five Districts Tested	\$41,665,514	\$42,160,595	\$83,826,109	\$13,124,013	\$60,761,885	\$73,885,898	\$ 9,940,211

Source: Department of Education grant database.

Note: ⁽¹⁾ Middle schools applied for elementary funds for 6th grade students and secondary funds for 7th and 8th grade students. Middle school grants selected could be either.

Appendix C

Legislative Counsel Legal Opinion

STATE OF NEVADA
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January 28, 2009

Paul Townsend, *Legislative Auditor*
401 South Carson Street
Carson City, NV 89701

Dear Paul:

You have asked this office several questions relating to the distribution and expenditure of money in the Account for Programs for Innovation and the Prevention of Remediation (Account). Specifically, you have asked: (1) Whether the money in the Account may be distributed at any time during the term of the grant; (2) Whether the Superintendent of Public Instruction (Superintendent) is required to distribute all grant money allocated by the Commission on Educational Excellence (Commission); (3) Whether a recipient of money from the Account may carry forward unspent money from one fiscal year to the next; and (4) Whether the Superintendent is authorized to require the return of any unspent money to the Account at the end of each biennium of the State.

In 2005, the Nevada Legislature enacted Senate Bill No. 404, which created the Commission and the Account. (See NRS 385.3781 to 385.379, inclusive). Section 6 of S.B. 404 (2005), codified as NRS 385.3785, authorizes public schools and school districts to apply to the Commission for an allocation of money from the Account to carry out programs of innovation and for the prevention of remediation. Senate Bill No. 185 of the 2007 Legislative Session amended NRS 385.3785 to remove the authority of school districts to apply for an allocation from the Account and to authorize consortiums of public schools to apply for an allocation from the Account. NRS 385.3785 also requires the Commission to review, approve and evaluate applications for grants of money from the Account submitted by public schools and consortiums of public schools. Although the Commission is responsible for allocating money from the Account, the Superintendent is designated as the Administrator of the Account and is responsible for distributing the money in accordance with the allocations made by the Commission. NRS 385.379. S.B. 185 (2007) also amended NRS 385.3789 to require the Legislative Auditor to "audit biennially the programs for which . . . an allocation of money" from the Account is received. It is our understanding that your questions have been raised as a result of such an audit. Because your questions relate to an audit of allocations of money distributed before the enactment of S.B. 185 (2007), this letter only refers to money allocated for public schools and

school district and not consortiums of public schools to reflect the language of NRS 385.3785 as enacted.

Your first question is whether the money allocated by the Commission may be distributed from the Account at any time during the term of the grant. According to the Supreme Court of Nevada, “[w]e are not empowered to go beyond the face of a statute to lend it a construction contrary to its clear meaning.” Union Plaza Hotel v. Jackson, 101 Nev. 733, 736 (1985). Therefore, if the language of a statute is not ambiguous, it must be given its plain meaning. Sutherland Statutory Construction § 45.13 (5th ed. 1992). NRS 385.3785 states that allocations from the Account “must be distributed not later than August 15 of each year.” NRS 385.3785(1)(h). By its plain terms, this provision requires the money allocated by the Commission to be distributed by August 15 of each year. Money allocated before August 15, therefore, must be distributed from the Account by that date for use during the next school year. You have provided to this office a copy of the “Request for Applications” for the fiscal years relevant to your audit. Each “Request for Applications” specifies a term for grants allocated by the Commission. For example, the “Request for Applications” issued in April of 2006 specifies that “[t]he grants will be distributed for a 12-month period of time.” Page 4. Thus, a grant allocated pursuant to this “Request for Applications” must be distributed by the next succeeding August 15 and the public school or school district has 12 months from the date of that distribution to use the money. Therefore, it is the opinion of this office that the Superintendent is required to distribute all money approved for allocation for the next school year by August 15 of each year and is not authorized to distribute money from the Account for that school year after August 15.

Your second question is whether the Superintendent, as Administrator of the Account, is required to distribute all money allocated by the Commission. As stated above, by its plain language, NRS 385.3785 requires that allocations by the Commission be distributed by August 15 of each year and does not give the Superintendent discretion to refuse to distribute or delay the distribution of an allocation made by the Commission. NRS 385.3785(1)(h). Therefore, it is the opinion of this office that the Superintendent must distribute all money allocated by the Commission by August 15 of each year and may not delay the distribution of money by distributing it throughout the term of the grant.

Your third question is whether a public school or a school district that receives money from the Account may carry forward unspent money from one fiscal year to the next fiscal year. Reviewing the applicable law, the provisions of NRS 385.3781 to 385.379, inclusive, are silent as to whether or not unspent money may be carried forward. NRS 385.3785 gives the Commission authority to establish programs of educational excellence, develop a process for applying for money from the Account and to establish other guidelines relating to carrying out the provisions of NRS 385.3781 to 385.379, inclusive. Therefore, because relevant law does not specify whether unspent money may be carried forward, any guidelines established or direction given by the Commission must be considered. After reviewing the section titled “Application Requirements and Guidelines” contained in each applicable “Request for Applications,” we have determined that these guidelines do not address whether unspent money may be carried forward.

Therefore, the terms of each grant must be reviewed to determine whether the grant specifically authorizes or prohibits that public school or school district from carrying forward unspent money.

Pursuant to NRS 385.379, the Superintendent is required to administer the Account; however, NRS 385.379 does not prescribe the administrative duties of the Superintendent. Considering the definition of "administer," the Superintendent is "to have charge of" and "to manage or dispose of" the money in the Account. Webster's II New Riverside University Dictionary 79 (3d ed. 1994). As the administrator of the Account, the Superintendent is required to administer each grant of money distributed from the Account, which may include establishing terms for a grant, such as requiring that unspent money is returned to the Account at the end of a fiscal year, so long as such terms do not violate the law and are consistent with the terms set by the Commission. Therefore, it is the opinion of this office that, absent any guidelines or direction from the Commission to the contrary and absent a term of the grant to the contrary, a public school or a school district may carry forward unspent money from one fiscal year to the next.

The last question you have asked is whether the Superintendent is authorized to require public schools and school districts that have unspent money from allocations to return the unspent money to the Account at the end of a fiscal biennium of the State. The provisions of NRS 385.3781 to 385.379, inclusive, do not address the return of unspent money. Thus, the previous answer applies to this question as well. In the absence of express statutory language, we recommend that you consider any guidelines established or directions given by the Commission relating to the return of unspent money. As noted above, the applicable "Requests for Applications" provided to this office do not address the return of unspent funds. Therefore, the terms of each grant must be reviewed to determine whether the Superintendent included in the grant a requirement for the return of unspent money.

Assuming that a requirement to return the unspent money is included in a grant, you have asked whether the Superintendent may require the return of unspent money at the end of a biennium. The plain language of NRS 385.3785 provides that an application for money from the Account "may be approved by the Commission for participation for a period not to exceed 2 years." NRS 385.3785(1)(c). By its plain terms, NRS 385.3785 authorizes a grant for a period of up to 2 years; however, NRS 385.3785 does not limit this period to falling within a single biennium of the fiscal cycle of the State. This interpretation is further supported by the fact that the Account does not revert to the State General Fund at the end of a fiscal year or at the end of a biennium, rather the Account is ongoing and the balance in the Account carries forward. NRS 385.379. According to the "Requests for Applications" provided to this office, the term of the grants issued during the 2005-2007 biennium were varied. The Commission allocated money for some grants which had each had a term of 18 months, beginning in January of 2006. In addition, the Commission allocated money for other grants which each had a term of 12 months, beginning June of 2006. If the Commission allocates money to a public school or a school district and the term of that grant does not run concurrently with the biennium of the State, the Superintendent may not act contrary to the decisions of the Commission by requiring the public

Legislative Auditor
January 28, 2009
Page 4


school or school district to return unspent money before the end of the term of the grant. Thus, it is the opinion of this office that the Superintendent has the authority to require the return of unspent money at the end of a biennium or the end of the term of a grant, as appropriate, so long as that term is specified in the grant and does not conflict with any guideline or direction of the Commission. It is also the opinion of this office that to determine whether money must be returned to the Account, you must review the terms of each grant to determine whether it contains a provision which requires unspent money to be returned to the Account.

If you have any further questions regarding this matter, please do not hesitate to contact this office.

Very truly yours,

Brenda J. Erdoes
Legislative Counsel

By 
Sara Partida
Principal Deputy Legislative Counsel

By 
Kristin Roberts
Senior Principal Deputy Legislative Counsel

SLP:dtm
Encl.
Ref No. 0809031040
File No. OP_Auditor08090491628

Appendix D
Response From the Department of Education

KEITH W. RHEULT
Superintendent of Public Instruction

GLORIA P. DOPF
Deputy Superintendent
Instructional, Research and Evaluative
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JAMES R. WELLS
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STATE OF NEVADA



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September 21, 2009

Paul V. Townsend, Legislative Auditor
Sedway Office Building
401 S. Carson Street
Carson City, Nevada 89701

Dear Mr. Townsend:

I have had the opportunity to review the Legislative Counsel Bureau (LCB) Preliminary Audit Report completed for the "Programs for Innovation and the Prevention of Remediation". Attached is the Department of Education's written explanation and response to the 16 recommendations provided in the Preliminary Audit Report.

The Department of Education appreciates the work of the Legislative Audit staff and the time committed in formulating the audit recommendations. Please contact me if you have any questions or need clarification to the response.

Sincerely,

A handwritten signature in black ink that reads "Keith W. Rheault".

Keith W. Rheault, Superintendent of Public Instruction
Nevada Department of Education

PRELIMINARY LCB AUDIT REPORT
PROGRAMS FOR INNOVATION AND THE PREVENTION OF REMEDIATION
WRITTEN EXPLANATION

NEVADA DEPARTMENT OF EDUCATION

The Nevada Department of Education accepts the 16 Audit Recommendations identified in the Preliminary Audit Report for the "Programs for Innovation and Prevention of Remediation." The Department, working in conjunction with the Commission on Educational Excellence, will develop a corrective action plan for the recommendations once the report has been presented to the Audit Subcommittee of the Legislative Commission.

Although the Preliminary Report provides a brief background to the "Programs for Innovation and Prevention of Remediation" and the corresponding funding associated with the programs, the Department would like to take the opportunity through this written explanation to provide additional supporting information related to the audit recommendations.

As summarized in the audit report, the Program for Innovation and Prevention of Remediation was a new program authorized during the 2005 legislative session that also created the Commission on Educational Excellence. The Commission was responsible for the oversight and implementation of the new program. The Nevada Department of Education (NDE) was charged with providing administrative support, equipment and office space to the Commission. It is noted that no funding was provided to the NDE in support of the Commission, specifically funding to support staffing needed to properly administer the program grants. The Innovation and Prevention of Remediation grant program was the largest, in terms of the number of grants reviewed, ever administered by the NDE. NDE staff, primarily through positions funded with Federal funds, were assigned additional duties over and above their regular assignments to assist with the administrative support to the Commission and the grants program. It is believed that several of the audit recommendations could have been mitigated had sufficient staff been available to oversee the program. Two new staff positions, including one educational consultant and one grants analyst, were requested by the NDE in the 2007-09 Budget to address the critical need for staff support to implement the program, however, neither of the positions were approved through the budget process.

Membership of the Commission did not get finalized until early September of 2005. The expectation of the Commission was to distribute the Innovation and Prevention of Remediation funds to schools as quickly as possible in order for schools to benefit from the program during the 2005-07 biennium. The rush to distribute the funding contributed greatly to the program being implemented before appropriate policies could be put in place for the program. It is noted that a number of changes were made to the application and reporting requirements of the program during the 2007-09 round of funding as a result of lessons learned from implementing the program during the timeframe covered in this audit.

A major issue encountered with the program was the volume of application amendments being requested by grant recipients after the initial approval of the grants. The review and approval of grant amendment requests by a Commission composed of members with full time jobs meeting every 6 to 8 weeks did not always provide for timely consideration of the requests which led to some of the audit findings and recommendations.

Specific policies of the Commission as to when NDE staff have authority to approve minor amendments to grants in order to expedite the process without usurping Commission authority and policies that clearly identify which amendment requests must be submitted for approval of the Commission as well as limiting the number of amendments allowed to be submitted will help alleviate and address the audit findings.

Finally, NDE believes there are a couple of issues related to the funding of the program that will need to be addressed by the Legislature, as a result of the audit, to clarify the intent of the program. Specifically, current statute wording requires the grant funding to be distributed by August 15 of each grant year. For all other Federal and state programs administered by the NDE, the distribution deadline for funding is considered met once the applicant has received a grant award document that authorized the recipient to request funding as needed. Legislative auditors received a Legislative legal opinion that will require the NDE to provide the actual cash to program recipients, and not just the authority to request cash, by the August 15th deadline. The result is that millions of dollars in funding that could be collecting interest in the Trust Fund for Innovation and Prevention of Remediation programs will be distributed to school districts regardless of whether the funding is actually needed at the time of distribution. It is also noted that there is currently no requirement that the interest earned by school districts from the Program for Innovation and Prevention of Remediation grant funds be used to enhance the programs funded by the grants.

A second funding issue relates to the delineation of specific funding amounts for elementary schools and secondary schools and the interpretation of when the Commission has authority to award elementary school grant funds to secondary programs. Senate Bill 404 stipulated that "If money is remaining from the appropriation made by subsection 1 after allocations for kindergarten through sixth grades are complete, school districts and schools may apply for allocations from the remainder of the appropriation for programs for grades 7 through 12." A disproportionate amount of funding was made available to elementary programs (\$78 million versus \$13.9 million for secondary programs) and many of the elementary school applications were only partially funded. The Commission believed it was acting within the intent of the S.B. 404 when it completed its review of elementary funding requests (even if only partially funded) and awarded remaining elementary funds to secondary programs. The designation of specific funding amounts for elementary and secondary programs only complicates the administration of the program and could be alleviated by designating one pot of funds for all schools to compete for equally, with the most deserving schools receiving the funding whether elementary or secondary.

**Department of Education
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Work with the Commission on Educational Excellence to develop and adopt policies regarding the administration of grants issued from the Account for Programs for Innovation and the Prevention of Remediation. Policies should detail NDE responsibilities and any authorization to perform specific functions on behalf of the Commission	<u> X </u>	<u> </u>
2	Develop controls to provide reasonable assurance that Account funds are used as approved by the Commission.....	<u> X </u>	<u> </u>
3	Develop controls to ensure revised grant budgets include only items approved by the Commission during the grant awarding process.....	<u> X </u>	<u> </u>
4	Implement reasonable procedures and controls to ensure expenditures have not occurred prior to budget amendment requests	<u> X </u>	<u> </u>
5	Consider developing policies regarding measures that may be enforced when violations of Commission policies and procedures occur	<u> X </u>	<u> </u>
6	Revise procedures and controls to ensure budget amendments are approved by the proper authority	<u> X </u>	<u> </u>
7	Revise budget amendment forms to request sufficient information to easily determine amendment changes, amendment explanations, and if requested changes comply with adopted policies	<u> X </u>	<u> </u>
8	Develop policies, procedures, and controls to ensure funding is awarded and utilized as intended by the Legislature.....	<u> X </u>	<u> </u>
9	Consider revising grant periods and reporting deadlines to allow for more accurate accounting and reporting of grant activities	<u> X </u>	<u> </u>
10	Ensure reporting accuracy by developing controls to verify supplementary schedules agree to district accounting records.....	<u> X </u>	<u> </u>
11	Distribute all grant funding by August 15 of each grant year.....	<u> X </u>	<u> </u>

**Department of Education
Response to Audit Recommendations
(continued)**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
12	Work with the Commission on Educational Excellence to ensure meetings regarding the approval of grant allocations are held so that sufficient time remains for NDE to distribute funding by August 15	<u> X </u>	<u> </u>
13	Specify the requirement to return unused funding, including due dates, in grant applications and award information.....	<u> X </u>	<u> </u>
14	Deposit returned funds in accordance with state law	<u> X </u>	<u> </u>
15	Implement procedures and controls to ensure equipment purchased with Account funding is adequately monitored, tracked, and safeguarded	<u> X </u>	<u> </u>
16	Develop procedures and controls to ensure all grantees with equipment purchases submit required reports	<u> X </u>	<u> </u>
	TOTALS	<u> 16 </u>	<u> 0 </u>