

Department of Education

**For the Year Ended
June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

March 8, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Vernon Coffey, Commissioner
Department of Education
Suite 600, Andrew Johnson Tower
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Education for the year ended June 30, 2000.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Education is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Education
For the Year Ended June 30, 2000

AUDIT SCOPE

We have audited the Department of Education for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and the Tennessee Single Audit Report for the same period: the School Breakfast Program; the National School Lunch Program; the Title I Grants to Local Education Agencies; the Special Education-Grants to States; and the Vocational Education-Basic Grants to States. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, the Education Trust Fund, the Basic Education Program, utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grant module to record the receipt and expenditure of federal funds, compliance with the Department of Finance and Administration's guidelines for uniform monitoring of subrecipients, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

Expenditures Were Not Always Approved by an Authorized Employee

Expenditures were not always approved by an authorized employee. Several expenditures were approved by an employee who was not included on the signature authorization forms, and other expenditures were approved using a stamp of the Director of Accounts' signature that was not initialed by the employee who used the stamp (page 20).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Education
For the Year Ended June 30, 2000

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Department of Education For the Year Ended June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Education. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Education is to advance student success by creating and supporting a dynamic, world-class system of teaching and learning for all Tennesseans. To fulfill this mission, the department carries out its mandate through an administrative staff and three major divisions: the Division of Curriculum and Instruction, the Division of Vocational Education, and the Division of Special Education.

The department provides technical assistance and monitoring on a statewide basis through its central office and six field offices. The department allocates state and federal funds to the 138 Tennessee school districts that annually serve approximately 894,000 students and employ more than 64,000 teachers, principals, supervisors, and other professional employees statewide.

During the 1990s, at the direction of the Governor and the General Assembly, the department implemented an education improvement package called the Twenty-first Century Schools Program. This program has reduced class size at every grade level. State funds have provided high-tech equipment for classrooms and school libraries. A management information system now links schools with district central offices and the state Department of Education. State funds have also allowed school districts to provide additional materials and supplies for teachers and have increased the level of support for capital outlay, maintenance, and operations.

Underlying the department’s initiatives is the goal of preparing today’s students for the challenges and jobs of the 21st century. During the 1999-2000 fiscal year, the three major initiatives of the department were (1) training teachers to prepare students for high-stakes

graduation tests that begin in school year 2001-2002; (2) identifying a group of low performing schools for intensive technical assistance and additional grant funding; and (3) holding schools and school districts accountable through individual school and district report cards.

An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of Education for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and the Tennessee Single Audit Report for the same period: the School Breakfast Program; the National School Lunch Program; the Title I Grants to Local Education Agencies; the Special Education-Grants to States; and the Vocational Education-Basic Grants to States. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, the Education Trust Fund, the Basic Education Program, utilization of the Department of Finance and Administration's STARS (State of Tennessee Accounting and Reporting System) grant module to record the receipt and expenditure of federal funds, compliance with the Department of Finance and Administration's guidelines for uniform monitoring of subrecipients, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

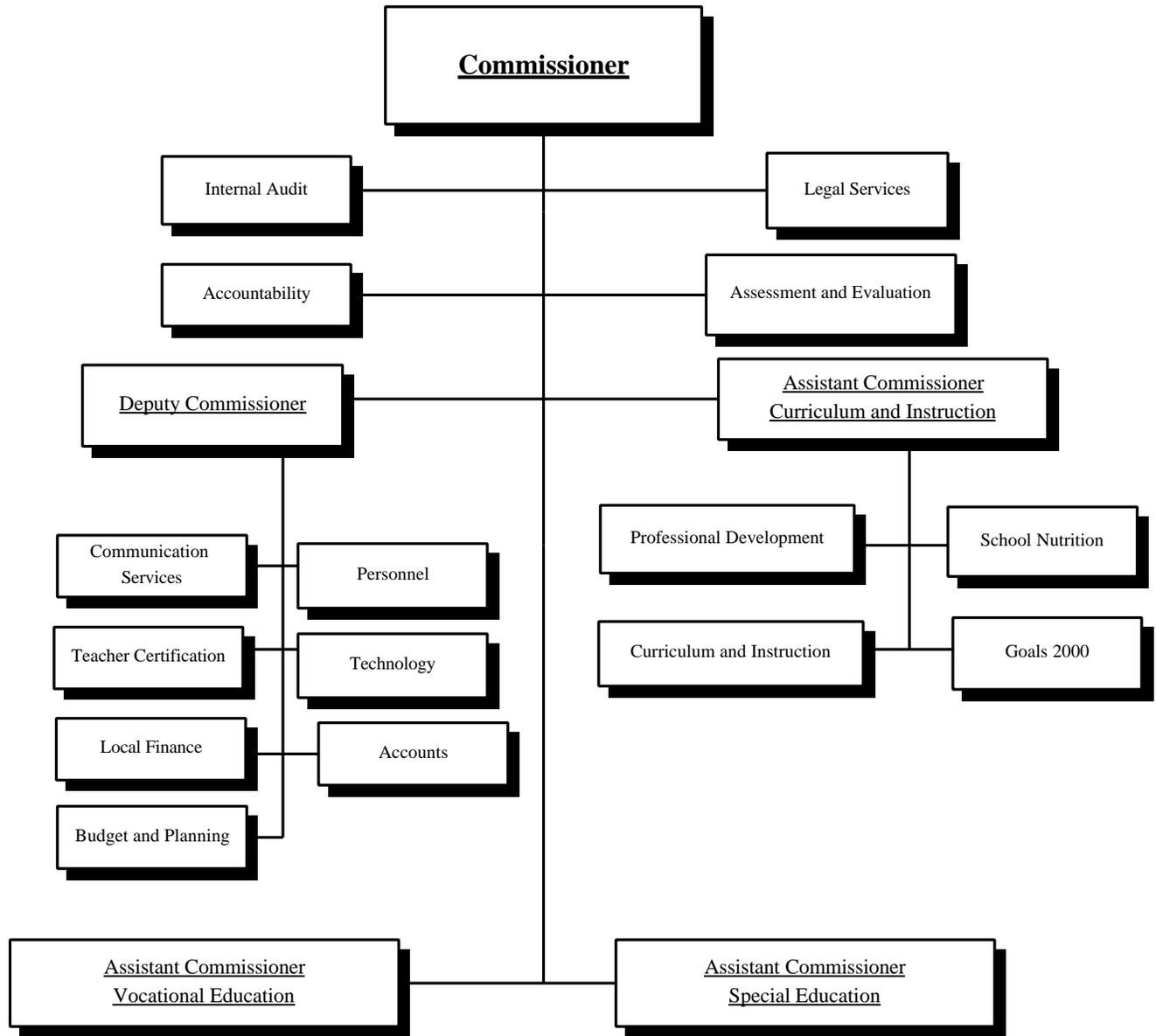
PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Education filed its report with the Department of Audit on August 29, 2000. A follow-up on the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Education corrected the previous audit finding concerning weak internal controls over expenditures for the Education Edge project.

Department of Education Organization Chart



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Education is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal controls and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Education is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Education were material to the CAFR and to the Single Audit Report: the School Breakfast Program, the National School Lunch Program, the Title I Grants to Local Education Agencies, the Special Education-Grants to States, and the Vocational Education-Basic Grants to States.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these five major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the applicable section.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2000. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 2000, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

The audit of the department revealed no findings in areas related to the CAFR and the Single Audit Report.

SCHOOL BREAKFAST PROGRAM/NATIONAL SCHOOL LUNCH PROGRAM

The School Breakfast and National School Lunch programs are the two largest programs in the Child Nutrition Cluster of grant programs. The objectives of the child nutrition cluster programs are to assist states in administering food services that provide healthful, nutritious meals to eligible children in public and nonprofit private schools, residential child care institutions, and summer recreation programs; and to encourage the domestic consumption of nutritious agricultural commodities.

Our audit of the School Breakfast and National School Lunch programs primarily focused on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Federal Reporting
- Subrecipient Monitoring

The audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

General Internal Control

Our objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees; reviewed organization charts, description of duties and responsibilities for each division, and

correspondence from the grantor; and considered the overall control environment of the School Breakfast and National School Lunch programs.

Based on our interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The objectives of this area were to determine if funds were expended for allowable activities and if meal count and claiming systems were in compliance with federal requirements.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures for the School Breakfast and National School Lunch programs. We tested a nonstatistical sample of significant expenditure items and a nonstatistical sample of other expenditure items for both programs. Also, we reviewed the system for processing School Food Authority claims to determine if the meal count and claiming systems were in compliance with federal requirements.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that grant funds were expended for allowable activities. Also, we determined that the meal count and claiming systems were in compliance with federal requirements.

Cash Management

Our objective for this area was to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement.

Equipment and Real Property Management

Our objectives for this area were to determine if management complied with state policies and procedures for equipment transactions and if real property acquisitions and dispositions were in accordance with federal requirements.

We tested a nonstatistical sample of equipment transactions to determine compliance with state policies and procedures. We made inquiries regarding real property acquisitions and dispositions.

Based on the testwork performed, we determined that equipment transactions complied with state policies and procedures. Also, we determined that no real property was acquired with federal funds and no real property acquired with federal funds was disposed of during the audit period.

Matching, Level of Effort, Earmarking, and Period of Availability of Federal Funds

The objectives for this area were to provide reasonable assurance that matching requirements were met and to provide reasonable assurance that federal funds were used only during the authorized period of availability.

To provide reasonable assurance that matching requirements were met, we examined the State of Tennessee Accounting and Reporting System (STARS) Grant Expenditures by Object reports. We reviewed a listing of expenditures charged to grants that had closed during the audit period to determine whether the federal funds were used only during the authorized period of availability.

Based on testwork performed, the department appeared to comply with matching requirements. In addition, federal funds were used only during the authorized period of availability.

Procurement and Suspension and Debarment

Our objectives were to provide reasonable assurance that procurement of goods and services was made in compliance with the provisions of applicable regulations and guidelines, and that no subaward, contract, or agreement for purchase of goods or services was made with any debarred or suspended party.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for procurement and suspension and debarment. In addition, a nonstatistical sample of transactions was selected and tested for assurance that no items were purchased from a party that was suspended or debarred.

Based on testwork performed, management appears to have complied with procurement requirements, including requirements concerning debarred and suspended parties.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked management about the requirements and procedures for preparing, reviewing, and submitting program financial and progress reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on testwork performed, it appeared that, in all material respects, reports of federal awards included all activity of the reporting period, were supported by underlying records, and were submitted in accordance with program requirements.

Subrecipient Monitoring

The objective of this area was to determine whether subrecipients (Local Education Agencies) were properly monitored to ensure compliance with federal award requirements.

We asked management about procedures for monitoring subrecipients and tested a nonstatistical sample of subrecipients to determine if an audit in accordance with OMB Circular A-133 had been performed.

Based on inquiries and testwork performed, the department appears to have properly monitored subrecipients.

TITLE I GRANTS TO LOCAL EDUCATION AGENCIES

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

Our audit of the Title I program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment

- Federal Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

General Internal Control

Our objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees; reviewed organization charts, description of duties, and responsibilities for each division, and correspondence from the grantor; and considered the overall environment of the Title I program.

Based on our interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The objectives of this area were to determine if grant funds were expended only for allowable activities and to determine if indirect costs expended were calculated in compliance with federal requirements.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures for the Title I program. We tested a nonstatistical sample of significant expenditure items and a nonstatistical sample of nonsignificant expenditure items for the Title I program.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that grant funds were expended for allowable activities. Also, we determined that indirect costs expended were calculated in compliance with federal requirements.

Cash Management

Our objective for this area was to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement.

Equipment and Real Property Management

Our objectives for this area were to determine if management complied with state policies and procedures for equipment transactions and if real property acquisitions and dispositions were in accordance with federal requirements.

We tested a nonstatistical sample of equipment transactions to determine compliance with state policies and procedures. We made inquiries regarding real property acquisitions and dispositions.

Based on the testwork performed, we determined that equipment transactions complied with state policies and procedures. Also, we determined that no real property was acquired with federal funds and no real property acquired with federal funds was disposed of during the audit period.

Matching, Level of Effort, Earmarking, and Period of Availability of Federal Funds

The objectives of this area were to provide reasonable assurance that matching requirements were met and to provide reasonable assurance that federal funds were used only during the authorized period of availability.

To provide reasonable assurance that matching requirements were met, we examined maintenance of effort schedules, annual public school financial reports, and Title I allocation reports. We reviewed a listing of expenditures charged to grants that had closed during the audit period to determine whether federal funds were used only during the authorized period of availability.

Based on testwork performed, the department appeared to comply with matching requirements. In addition, federal funds were used only during the authorized period of availability.

Procurement and Suspension and Debarment

Our objectives were to provide reasonable assurance that procurement of goods and services was made in compliance with the provisions of applicable regulations and guidelines, and that no subaward, contract, or agreement for purchase of goods or services was made with any debarred or suspended party.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for procurement and suspension and debarment. In addition, a nonstatistical sample of transactions was selected and tested for assurance that no items were purchased from a party that was suspended or debarred.

Based on testwork performed, management appears to have complied with procurement requirements, including requirements concerning debarred and suspended parties.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked management about the requirements and procedures for preparing, reviewing, and submitting program financial and progress reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on testwork performed, it appeared that, in all material respects, reports of federal awards included all activity of the reporting period, were supported by underlying records, and were submitted in accordance with program requirements.

Subrecipient Monitoring

The objective of this area was to determine whether subrecipients (Local Education Agencies) were properly monitored to ensure compliance with federal award requirements.

We asked management about procedures for monitoring subrecipients and tested a nonstatistical sample of subrecipients to determine if an audit in accordance with OMB Circular A-133 had been performed.

Based on inquiries and testwork performed, the department appears to have properly monitored subrecipients.

Special Tests and Provisions

The objectives of this area were to determine whether the department determined the compliance of Local Education Agencies (LEAs) with comparability requirements and whether the department monitored LEAs for compliance with requirements regarding eligible private school children.

We reviewed the department's monitoring records and supporting documentation provided by the LEAs.

Based on our review, we determined that the department had determined the LEAs' compliance with comparability requirements and that the department monitored LEAs for compliance with requirements regarding eligible private school children.

SPECIAL EDUCATION-GRANTS TO STATES

The objectives of the Special Education program are to (1) ensure that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure the effectiveness of efforts to educate children with disabilities.

Our audit of the Special Education program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs / Cost Principles
- Cash Management
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Federal Reporting
- Subrecipient Monitoring

General Internal Control

Our objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees; reviewed organization charts, description of duties, and responsibilities for each division, and correspondence from the grantor; and considered the overall environment of the Special Education program.

Based on our interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The primary objectives of this area were to determine if grant funds were expended only for allowable activities and to determine if indirect costs expended were calculated in compliance with federal requirements.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures for the Special Education program. We tested a nonstatistical sample of significant expenditure items and a nonstatistical sample of nonsignificant expenditure items for the Special Education program.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that grant funds were expended for allowable activities. Also, we determined that indirect costs expended were calculated in compliance with federal requirements.

Cash Management

Our objective for this area was to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement.

Equipment and Real Property Management

Our objectives for this area were to determine if management complied with state policies and procedures for equipment transactions and if real property acquisitions and dispositions were in accordance with federal requirements.

We tested a nonstatistical sample of equipment transactions to determine compliance with state policies and procedures. We made inquiries regarding real property acquisitions and dispositions.

Based on the testwork performed, we determined that equipment transactions complied with state policies and procedures. Also, we determined that no real property was acquired with federal funds and no real property acquired with federal funds was disposed of during the audit period.

Matching, Level of Effort, Earmarking, and Period of Availability of Federal Funds

The objectives of this area were to provide reasonable assurance that matching requirements were met and to provide reasonable assurance that federal funds were used only during the authorized period of availability.

To provide reasonable assurance that matching requirements were met, we examined State of Tennessee Accounting and Reporting System (STARS) Grant Expenditures by Object reports, grant award notifications, and IDEA and preschool allocation worksheets. We reviewed a listing of expenditures charged to grants that closed during the audit period to determine whether the federal funds were used only during the authorized period of availability.

Based on testwork performed, the department appeared to comply with matching requirements. In addition, federal funds were used only during the authorized period of availability.

Procurement and Suspension and Debarment

Our objectives were to provide reasonable assurance that procurement of goods and services was made in compliance with the provisions of applicable regulations and guidelines, and that no subaward, contract, or agreement for purchase of goods or services was made with any debarred or suspended party.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for procurement and suspension and debarment. In addition, a nonstatistical sample of transactions was selected and tested for assurance that no items were purchased from a party that was suspended or debarred.

Based on testwork performed, management appears to have complied with procurement requirements, including requirements concerning debarred and suspended parties.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked management about the requirements and procedures for preparing, reviewing, and submitting program financial and progress reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on testwork performed, it appeared that, in all material respects, reports of federal awards included all activity of the reporting period, were supported by underlying records, and were submitted in accordance with program requirements.

Subrecipient Monitoring

The objective of this area was to determine whether subrecipients (Local Education Agencies) were properly monitored to ensure compliance with federal award requirements.

We asked management about procedures for monitoring subrecipients and tested a nonstatistical sample of subrecipients to determine if an audit in accordance with OMB Circular A-133 had been performed.

Based on inquiries and testwork performed, the department appears to have properly monitored subrecipients.

VOCATIONAL EDUCATION-BASIC GRANTS TO STATES

The objective of the Vocational Education program is to provide grants to states and outlying areas to develop the technical, vocational, and academic skills of secondary students and postsecondary students.

Our audit of the Title I program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs / Cost Principles
- Cash Management
- Equipment and Real Property Equipment
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Federal Reporting
- Subrecipient Monitoring

General Internal Control

Our objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees; reviewed organization charts, description of duties, and responsibilities for each division, and correspondence from the grantor; and considered the overall environment of the Special Education program.

Based on our interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The objectives of this area were to determine if grant funds were expended only for allowable activities and to determine if indirect costs expended were calculated in compliance with federal requirements.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures for the Vocational Education program. We tested a nonstatistical sample of significant expenditure items and a nonstatistical sample of nonsignificant expenditure items for the Vocational Education program.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that grant funds were expended for allowable activities. Also, we determined that indirect costs expended were calculated in compliance with federal requirements.

Cash Management

Our objective for this area was to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement.

Equipment and Real Property Management

Our objectives for this area were to determine if management complied with state policies and procedures for equipment transactions and if real property acquisitions and dispositions were in accordance with federal requirements.

We tested a nonstatistical sample of equipment transactions to determine compliance with state policies and procedures. We made inquiries regarding real property acquisitions and dispositions.

Based on the testwork performed, we determined that equipment transactions complied with state policies and procedures. Also, we determined that no real property was acquired with federal funds and no real property acquired with federal funds was disposed of during the audit period.

Matching, Level of Effort, Earmarking, and Period of Availability of Federal Funds

The objectives of this area were to provide reasonable assurance that matching requirements were met and to provide reasonable assurance that federal funds were used only during the authorized period of availability.

To provide reasonable assurance that matching requirements were met, we examined State of Tennessee Accounting and Reporting System (STARS) Grant Expenditures by Object reports, financial status reports, and program improvement allocation worksheets. We reviewed a listing of expenditures charged to grants that had closed during the audit period to determine whether the federal funds were used only during the authorized period of availability.

Based on testwork performed, the department appeared to comply with matching requirements. In addition, federal funds were used only during the authorized period of availability.

Procurement and Suspension and Debarment

Our objectives were to provide reasonable assurance that procurement of goods and services was made in compliance with the provisions of applicable regulations and guidelines, and that no subaward, contract, or agreement for purchase of goods or services was made with any debarred or suspended party.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for procurement and suspension and debarment. In addition, a nonstatistical sample of transactions was selected and tested for assurance that no items were purchased from a party that was suspended or debarred.

Based on testwork performed, management appears to have complied with procurement requirements, including requirements concerning debarred and suspended parties.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked management about the requirements and procedures for preparing, reviewing, and submitting program financial and progress reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on testwork performed, it appeared that, in all material respects, reports of federal awards included all activity of the reporting period, were supported by underlying records, and were submitted in accordance with program requirements.

Subrecipient Monitoring

The objective of this area was to determine whether subrecipients (Local Education Agencies) were properly monitored to ensure compliance with federal award requirements.

We asked management about procedures for monitoring subrecipients and tested a nonstatistical sample of subrecipients to determine if an audit in accordance with OMB Circular A-133 had been performed.

Based on inquiries and testwork performed, the department appears to have properly monitored subrecipients.

REVENUE

Our objectives for reviewing revenue controls and procedures were to determine whether

- internal controls were adequate;
- the department reconciled revenue records with revenue reports;
- the department maintained proper documentation for each journal voucher;
- transactions were properly documented;
- receipts agreed with amounts deposited;
- deposit slips were properly completed;
- departmental records were reconciled with STARS (State of Tennessee Accounting and Reporting System);
- funds were properly controlled and deposited intact; and
- funds were deposited in a timely manner.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over revenues. We reviewed reconciliations of revenue records with revenue reports. We also tested a nonstatistical sample of revenue transactions and a nonstatistical sample of cash receipts.

Based on our interviews, review of supporting documentation, and testwork, we determined that internal controls appeared adequate. We determined that the department reconciled revenue records with revenue reports and maintained proper documentation for journal vouchers. We determined that transactions were properly documented, that receipts agreed with amounts deposited, that deposits were completed properly, that departmental records were reconciled with STARS, and that funds were properly controlled and deposited intact. We also determined that funds were deposited in a timely manner.

EXPENDITURES

Our objectives for reviewing expenditure controls and procedures were to determine whether

- internal controls were adequate;
- expenditures were properly approved;
- the department maintained proper documentation for each journal voucher;
- evidence exists that goods were received;
- invoices were mathematically accurate;
- signatures on supporting documentation were made by authorized individuals;
- documentation was sufficient to support payment of the invoice; and
- bids were solicited when needed.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures. We also tested a nonstatistical sample of significant expenditure transactions and a nonstatistical sample of nonsignificant expenditure transactions.

Based on our interviews, review of supporting documentation, and testwork, we determined as discussed in the finding that expenditures were not always approved by an authorized employee. We determined that the department maintained proper documentation for journal vouchers and evidence existed that goods were received. We determined that invoices were mathematically accurate and documentation was sufficient to support payment of the invoice. Also, bids were solicited when needed.

Expenditures were not always approved by an authorized employee

Finding

Expenditures were not always approved by an authorized employee. Of 732 expenditures tested, 66 (9.02%) were not approved by an authorized employee. Of the 66 expenditures noted, 41 (62.1%) were approved by an employee who was not included on the signature authorization forms, and 25 (37.9%) were approved using a stamp of the Director of Accounts' signature that was not initialed by the employee who used the stamp. Thus, determining whether an authorized employee approved the expenditure was not possible. According to the *State of Tennessee Administration Manual*, "No invoices should be processed for payment without verification of receipt of goods or services and approval for payment by the fiscal officer and department head or their designees."

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. In addition, management has the responsibility for ensuring effective supervisory reviews to provide reasonable assurance that errors and irregularities will be detected timely. When established approval controls and procedures are not followed, payments may be made for goods or services that were not received.

Recommendation

Management should ensure that only authorized employees approve expenditures for payment. Signature authorization forms should include all employees that are authorized to sign for the Director of Accounts. Also, employees authorized to use a stamped signature should be reminded to initial the signature each time the stamp is used.

Management's Comment

We concur. Signature authorization has been obtained and is in the authorization file for the employee cited in the finding. Employees have been instructed to include their initials after using the signature stamp.

EDUCATION TRUST FUND

Our objective for reviewing the education trust fund was to determine whether the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements.

We recalculated the financial statements to determine their accuracy, traced amounts to the State of Tennessee Accounting and Reporting System, and verified account classifications.

We compared the current-year financial statements with the prior-year financial statements to determine any reporting changes. We also compared the amounts between current-year financial statements and prior-year financial statements and obtained explanations for any significant variances.

We determined that the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements.

BASIC EDUCATION PROGRAM

The objectives of our review of the Basic Education Program (BEP) were to determine whether

- internal controls were adequate;
- expenditure amounts in the BEP database traced to supporting documentation submitted by the Local Education Agencies (LEAs); and
- the average daily membership amounts listed in the BEP database traced to supporting documentation submitted by the LEAs.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over the BEP. We selected a nonstatistical sample of LEAs and traced expenditure and average daily membership amounts in the BEP database to supporting documentation submitted by the LEAs.

Based on our interviews, review of supporting documentation, and testwork, we determined that internal controls over BEP appeared adequate. We determined that expenditure amounts in the BEP database traced to supporting documentation submitted by the LEAs. We also determined that the average daily membership amounts listed in the BEP database traced to supporting documentation submitted by the LEAs.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, “RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy Statement 20. We performed testwork to determine if appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and if related revenue and expenditure amounts were coded with the proper grant codes. We performed testwork to determine if the department made drawdowns at least weekly using the applicable STARS reports, if the department had negotiated an appropriate indirect cost recovery plan, and if indirect costs were included in drawdowns. We also performed testwork to determine if the appropriate STARS reports were used as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and that related revenue and expenditure transactions were coded with the proper grant codes. We determined that the department made drawdowns at least weekly using the applicable STARS reports. We determined that the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns. We also determined that the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22,
“SUBRECIPIENT MONITORING”**

Department of Finance and Administration Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. Our testwork focused on

- the criteria used to distinguish between subrecipients and vendors;
- the department's method for risk assessment;
- determining whether the risk assessment method targeted areas that helped identify the subrecipient's risk level; and
- determining whether the risk assessment method was properly and consistently applied to the subrecipients.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls concerning Policy Statement 22. We selected a listing of payees to determine whether payees not listed as subrecipients were appropriately classified as vendors. We reviewed the method used for risk assessment to determine whether the risk assessment targeted areas that identified the subrecipients' risk level. We also reviewed the risk assessment method to determine if the method was properly and consistently applied to the subrecipients.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the department's procedures and controls concerning Policy 22 appeared adequate. We determined that payees not listed as subrecipients were appropriately classified as vendors. We determined that the method used for risk assessment targeted areas that identified the subrecipients' risk level, and we determined that the risk assessment method was properly and consistently applied to the subrecipients.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2000, responsibility letter and December 31, 1999, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;

- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures. We reviewed the June 30, 2000, responsibility letter and the December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Commissioner of Finance and Administration to determine adherence to submission deadlines. To determine if corrective actions had been implemented, we interviewed management and reviewed supporting documentation as considered necessary.

We determined that the Financial Integrity Act responsibility letter and internal accounting and administrative control report were submitted on time, and in compliance with Section 9-18-104, *Tennessee Code Annotated*; support for the internal accounting and administrative control report was adequate; and procedures used to compile information for the internal accounting and administrative control report were adequate. Although corrective actions have not been fully implemented for the weaknesses noted, management is trying to correct the weaknesses.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 2000, the Department of Education filed its compliance report and implementation plan on June 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration designated the Human Rights Commission as the lead coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 2000, and each June 30 thereafter. The compliance report and implementation plan were filed June 30, 2000, with the Department of Audit.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Education divisions and allotment codes:

331.01	Division of Administration
331.02	Grants-in-Aid
331.03	Elementary and Secondary Education System Act, Titles I, II, VI
331.04	Technology Infrastructure and Systems Support
331.05	Training and Professional Development
331.06	Curriculum and Instruction
331.07	State Board of Education
331.09	Improving Schools Program
331.10	Career Ladder Program
331.11	Accountability
331.12	Goals 2000, Educate America Act
331.25	Basic Education Program
331.35	School Nutrition Programs
331.36	Special Education Services
331.43	State Driver Education
331.45	Vocational Education
331.61	Adult and Community Education
331.90	Alvin C. York Agricultural Institute
331.91	Tennessee School for the Blind
331.92	Tennessee School for the Deaf–Knoxville
331.93	West Tennessee School for the Deaf–Jackson
331.95	Tennessee Infant and Parent Services
331.97	Major Maintenance