

**Tennessee Higher Education Commission**

**August 2004**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

August 31, 2004

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

Dr. Richard G. Rhoda, Executive Director  
Tennessee Higher Education Commission  
Suite 1900, Parkway Towers  
404 James Robertson Parkway  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Higher Education Commission for the period July 1, 2000, through May 25, 2004.

The review of internal control and compliance with laws and regulations resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
04/090



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

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May 25, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Higher Education Commission for the period July 1, 2000, through May 25, 2004.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Tennessee Higher Education Commission's compliance with laws and regulations significant to the audit objectives. Management of the Tennessee Higher Education Commission is responsible for establishing and maintaining effective 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 commission's management 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 commission's internal control and/or instances of noncompliance to the Tennessee Higher Education Commission's management in a separate letter.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA  
Director

AAH/cj

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Higher Education Commission**  
August 2004

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## AUDIT SCOPE

We have audited the Tennessee Higher Education Commission for the period July 1, 2000, through May 25, 2004. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of financial related issues and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDING

### **The Commission Did Not Prepare and File the Required Financial Integrity Act Letter**

The commission did not comply with the Financial Integrity Act by preparing and submitting by June 30, 2003, the responsibility letter acknowledging responsibility for maintaining the internal control of the commission (page 5).

# Financial and Compliance Audit Tennessee Higher Education Commission

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# **Financial and Compliance Audit Tennessee Higher Education Commission**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Tennessee Higher Education Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires 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 Tennessee Higher Education Commission was created in 1967 by the General Assembly. The purpose of the coordinating board is to create cooperation and unity among the state institutions of higher education. The commission coordinates two systems of higher education: the University of Tennessee campuses, governed by the University of Tennessee Board of Trustees; and the state universities, community colleges, technical institutes, and technology centers, governed by the Tennessee Board of Regents.

The commission’s mission is to carry out the statutory responsibilities through a board consisting of nine lay members representing Tennessee’s congressional districts and appointed by the Governor, as well as the State Comptroller, State Treasurer, Secretary of State, Executive Director of the Board of Education, and two student members as ex-officio members.

The statutory responsibilities mandate that the commission develop a master plan for Tennessee postsecondary education, public and private; develop formulae and recommend the operating and capital budgets for public higher education; review and approve new academic programs; provide data and information to the public, institutions, legislature, and state government; and license and regulate private vocational postsecondary institutions operating within the state.

The underlying principles of the policies developed by the commission are equity, excellence, accessibility, and accountability.

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

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## AUDIT SCOPE

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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

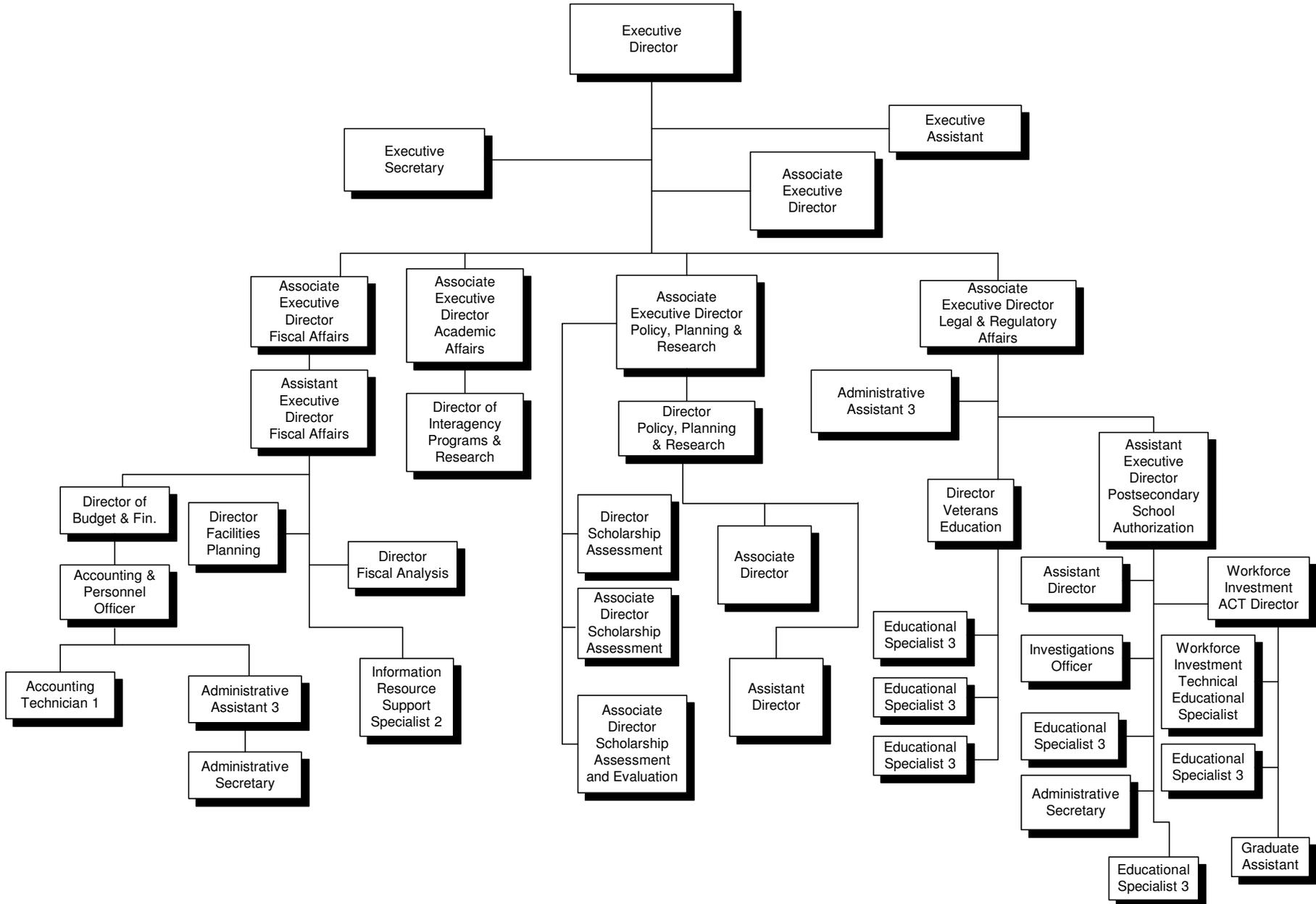
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### FINANCIAL RELATED ISSUES

Our objectives for reviewing financial related issues were to document internal controls and determine whether

- the commission's controls over processing and payment were adequate;
- expenditures and travel claims were adequately supported, properly approved, properly classified in the accounting records, and paid in a timely manner;
- proper purchasing procedures were followed;
- revenue transactions were properly recorded and reconciled to the State of Tennessee Accounting and Reporting System (STARS); and
- funds were properly disbursed from the Tuition Guaranty Fund.

# Tennessee Higher Education Commission Organization Chart



To accomplish our objectives, we interviewed key personnel and documented the commission's internal controls over financial related issues. We selected a nonstatistical sample of expenditures and tested these transactions to determine if adequate supporting documentation was maintained, if proper approval was obtained for the expenditure, if proper bidding procedures were followed, and if travel expenditures complied with State Travel Regulations. In addition, we tested revenues by selecting two months of cash receipts and tracing the receipts to certificates of deposit and ensuring the deposit was adequately recorded and reconciled to STARS. We also reviewed the Tuition Guaranty Fund requirements and noted the balance and amount of disbursements made from the fund.

As a result of our interviews and testwork performed, we determined that the commission's controls over processing and payment were adequate; expenditures and travel claims were adequately supported, properly approved, properly classified in the accounting records, and paid in a timely manner; proper purchasing procedures were followed; revenue transactions were properly recorded and reconciled to STARS; and amounts were properly disbursed from the Tuition Guaranty Fund.

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## **FINANCIAL INTEGRITY ACT**

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year acknowledging responsibility for maintaining the internal control system of the agency. In addition, the head of each executive agency is 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 commission's June 30, 2003; June 30, 2002; and June 30, 2001, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the commission'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 commission's procedures. We also reviewed the June 30, 2003; and June 30, 2002, responsibility letters and

the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the internal accounting and administrative control report was submitted on time and support for it was properly maintained, procedures used were in compliance with *Tennessee Code Annotated*, and corrective actions have been implemented for weaknesses identified in the report. The June 30, 2002, Financial Integrity Act responsibility letter was submitted in a timely manner. However, the June 30, 2003, responsibility letter was not prepared. See the following finding.

## **FINDING AND RECOMMENDATION**

### **The commission did not prepare and file the required Financial Integrity Act letter**

#### **Finding**

The Tennessee Higher Education Commission did not comply with the Financial Integrity Act by preparing and submitting by June 30, 2003, the responsibility letter acknowledging responsibility for maintaining the internal control of the commission.

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter a letter acknowledging responsibility for maintaining the internal control of the commission.

#### **Recommendation**

The Executive Director should ensure that the required letters are submitted to the Commissioner of Finance and Administration and the Comptroller of the Treasury by the submission deadlines.

#### **Management's Comment**

We concur with the finding regarding the Financial Integrity Act requirements. The Executive Director of the Tennessee Higher Education Commission has directed staff to document the process for timely submission of the Financial Integrity notification letter due June 30 annually in addition to the December letter submitted every fourth year.

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## OBSERVATIONS AND COMMENTS

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### TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, 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 each year. The Tennessee Higher Education Commission filed its compliance reports and implementation plans on June 30, 2003; June 27, 2002; and July 2, 2001.

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. The Tennessee Title VI Compliance Commission is responsible 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.

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## APPENDIX

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### ALLOTMENT CODES

Tennessee Higher Education Commission allotment codes:

332.01	Higher Education Commission
332.02	Contract Educational Program
332.09	THEC Grants