

**Audit Results From  
CAFR and Single Audit Procedures**

**Department of Education**

**For the Year Ended  
June 30, 2007**

**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**

**Arthur A. Hayes, Jr., CPA, JD, CFE**  
Director

**Kandi B. Thomas, CPA, CFE**  
Assistant Director

**Debra D. Bloomingburg, CPA, CFE**  
Audit Manager

**Debby Myers, CISA**  
In-Charge Auditor

**Mary Cole, CPA**  
**Jeff McClanahan, CPA, CFE**  
**Kendra Roberts**  
Staff Auditors

**Amy Brack**  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0246  
(615) 401-7897

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**Department of Education  
For the Year Ended June 30, 2007**

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**Department of Education  
For the Year Ended June 30, 2007**

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**EXECUTIVE SUMMARY**

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**Findings**

This report contains no findings.

For the complete results of our audit of the State of Tennessee, please see the State of Tennessee *Comprehensive Annual Financial Report* for the year ended June 30, 2007, and the State of Tennessee *Single Audit Report* for the year ended June 30, 2007. The scope of our audit procedures at the Department of Education was limited. During the audit for the year ended June 30, 2007, our work at the Department of Education focused on the Education Trust Fund, a major fund in the *Comprehensive Annual Financial Report* of the State of Tennessee. Our audit of the fund included determining whether the department had an adequate system of internal control over financial reporting. We also performed certain audit procedures to obtain reasonable assurance about whether the State of Tennessee's financial statements were fairly presented. In addition, our work at the Department of Education included one major federal program: Vocational Education. We audited this federally funded program to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the program to ensure compliance.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615)741-2501

John G. Morgan  
Comptroller

January 17, 2008

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Lana Seivers, Commissioner  
Department of Education  
Suite 600, Andrew Johnson Tower  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Education as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2007, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ddb  
07/105



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

JAMES K. POLK STATE OFFICE BUILDING, SUITE 1500  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897 ♦ FAX (615) 532-2765

December 7, 2007

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Education as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2007. The scope of our work included the Education Trust Fund, a major fund in the *Comprehensive Annual Financial Report* of the State of Tennessee. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Education.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies one of the State of Tennessee's major federal programs administered by the Department of Education. We performed certain audit procedures on this program as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to this major federal program.

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**Major Federal Program Administered by the  
Department of Education  
For the Year Ended June 30, 2007  
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
84.048	Vocational Education	\$27,052

Source: State of Tennessee's Schedule of Federal Awards for the year ended June 30, 2007.

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The Honorable John G. Morgan  
December 7, 2007  
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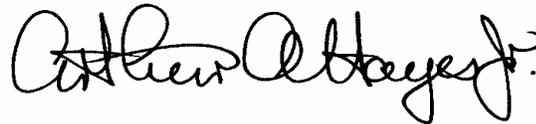
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued an unqualified opinion, dated December 7, 2007, on the State of Tennessee's financial statements for the year ended June 30, 2007. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we have reported certain matters involving the department's internal control and instances of noncompliance to the Department of Education's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

AAH/ddb

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## FINDINGS AND RECOMMENDATIONS

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The audit resulted in no audit findings.

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## STATUS OF PRIOR AUDIT FINDINGS

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### State of Tennessee *Single Audit Report* for the year ended June 30, 2006

An audit finding pertaining to the Department of Education was included in the *Single Audit Report*. The updated status of this finding, as determined by our audit procedures, is described below.

#### **Resolved Audit Finding**

The current audit disclosed that the Department of Education has taken action to correct the previous audit finding concerning the incurrence of grant expenditures related to the 2003-2004 Carl D. Perkins Vocational and Technical Education Grant after the grant's period of availability ended.

#### Most Recent Financial and Compliance Audit

Audit report number 06/047 for the Department of Education, issued in April 2007, contained an audit finding that was not included in the State of Tennessee *Single Audit Report*. This finding was not relevant to our current audit and, as a result, we did not pursue its status as a part of this audit.

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## OBSERVATIONS AND COMMENTS

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditor's risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumstances that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the commissioner.

## **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.