

**DEPARTMENT OF EDUCATION**

**FOR THE YEAR ENDED  
JUNE 30, 1995**

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

**Charles K. Bridges, CPA**  
Assistant Director

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

**Gregory L. Hawkins**  
In-Charge Auditor

**Marc Edinbough**  
**Alicia McKinley, CPA**  
**Brenda Turner**  
**Christa Whitley**  
Staff Auditors

**Leslie Dorn**  
Editor

July 2, 1996

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and  
The Honorable Jane Walters, Commissioner  
Department of Education  
Suite 600, Gateway Plaza  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Education for the year ended June 30, 1995.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The department's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/mm  
95/116

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, 1995

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of Education's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee; to determine compliance with laws, regulations, contracts, and grants; and to recommend appropriate actions to correct any deficiencies.

## COMPLIANCE FINDINGS

### **Federal Draws Were Not Adequately Supported**

The department could not always fully support the amount of funds requested and received from the U.S. Department of Education and the U.S. Department of Agriculture (page 11).

### **Financial Status Report for the Vocational Education Program Was Not Submitted on Time\***

The department had not completed and submitted the final Financial Status Report for the Vocational Education program as of December 14, 1995, although it was due December 31, 1994 (page 12).

\* This finding is repeated from prior audits.

## PAST FINDING NOT ACTED UPON BY MANAGEMENT

Prior audits of the Department of Education have contained a finding concerning the need to revise criteria for Career Level I certification because the standards for the certificate are no higher than those for the Professional Teacher License. The Department of Education has not

concurrent with the finding, stating that although the standards are the same, they should not be changed because there is a historical reason for their being the same. However, keeping the same criteria does not appear to meet the legislative objectives of the program.

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"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

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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AUDIT REPORT  
DEPARTMENT OF EDUCATION  
FOR THE YEAR ENDED JUNE 30, 1995

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DEPARTMENT OF EDUCATION  
FOR THE YEAR ENDED JUNE 30, 1995

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a 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.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the Department of Education’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee;
2. to determine compliance with laws, regulations, contracts, and grants; and
3. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.**

## **SCOPE OF THE AUDIT**

The audit was limited to the period July 1, 1994, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

The Department of Education is part of the primary government of the State of Tennessee and is accounted for in the special revenue funds. The audit covered the following divisions and allotment codes:

- 331.01 Division of Administration
- 331.02 Education Grants-in-Aid
- 331.03 Elementary and Secondary Education Act, Chapters 1 and 2
- 331.05 Professional Development
- 331.06 Curriculum and Instruction
- 331.07 State Board of Education
- 331.08 State-Supported LEA Programs
- 331.09 Federally Supported LEA Programs
- 331.10 Career Ladder Program
- 331.25 Basic Education Program
- 331.35 Child Nutrition Programs
- 331.36 Services to Handicapped Children
- 331.43 Driver Education
- 331.45 Vocational Education
- 331.49 Vocational Education Advisory Council
- 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
- 331.93 West Tennessee Center for the Deaf
- 331.94 Tennessee Preparatory School
- 331.97 Major Maintenance

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## **BACKGROUND AND ORGANIZATION**

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## **LEGISLATIVE HISTORY**

The Office of the State Superintendent of Public Instruction was created in 1835. In 1873, the General Assembly passed the first act establishing a program of public education for primary grades. The framework of the primary education system was reorganized in 1909 and again in 1925 and has remained basically the same.

In 1963, the 83rd General Assembly extended public education by establishing a state-owned and -operated system of area vocational-technical schools and regional technical institutes. The area schools offer vocational training for out-of-school youths and adults, and the regional institutes offer technical training at the post-high-school level and a two-year technical program leading to an associate degree.

In 1972, the 87th General Assembly expanded education opportunities by including all handicapped children between the ages of 4 and 21. The 88th General Assembly passed legislation in 1973 to expand comprehensive vocational and technical education programs to serve at least 50 percent of the students in grades 9 through 12 in each county.

The 93rd General Assembly passed legislation in 1982 transferring the State Library and Archives, along with the regional libraries, to the Secretary of State. In 1983, the same General Assembly transferred the state technical institutes and the area vocational-technical schools to the Tennessee Board of Regents.

The 93rd General Assembly passed the Comprehensive Education Reform Act of 1984. This act established the Better Schools programs, which include the Career Ladder program for full-time teachers, principals, and supervisors.

In 1988, the 95th General Assembly passed a bill authorizing the department to administer the inspection and approval process for school-age, child-care programs in public schools and day-care programs in private, church-related schools.

In 1992, the 97th General Assembly passed the Education Improvement Act to develop and adopt policies, formulas, and guidelines for the fair and equitable distribution and use of public funds among public schools.

## **ORGANIZATION**

The Department of Education is responsible for the administration of 1,650 public schools for grades K through 12, five special schools, and a variety of public education services.

The staff of the Commissioner's Office report directly to the commissioner and are responsible for legal services, internal audit, personnel, public information, special projects, school-age child day-care programs, and adult and community education.

The Department of Education is organized into five divisions: Curriculum and Instruction, Vocational Education, Accountability, Special Education, and Finance and Administration. The department also has seven district/regional offices.

The Division of Curriculum and Instruction provides statewide assessment, planning, and control of public education through management, curriculum, auxiliary, adult and community education programs. The division is also responsible for planning, initiating, developing, and

administering the federal programs, Student and Program Evaluation Services, School/Community Partnerships, and Psychological Services/Guidance of Health Services. The various sections are primarily responsible for the continued improvement of established programs or services, including the development of long-range plans and state guidelines.

The Division of Vocational Education provides specialized educational services to both young people and adults to enable them to obtain employment. The training is carried out through high school programs, area vocational-technical schools, and community colleges.

The Division of Accountability is responsible for the school success process. This process includes issuing all school system report cards, based on student test scores, in addition to overseeing the programs carried out through the district/regional offices. The report cards compare the individual school systems with other schools. The division is also responsible for the Career Ladder/Certification program, which administers the career teacher evaluation system, and issues teacher certificates based on academic achievement, using criteria set by laws, rules, and regulations.

The Division of Special Education administers programs for children with disabilities, as mandated by state and federal legislation. It also administers early intervention services for all eligible children ages 0 to 2 and is responsible for the administration of the department's five special schools.

The Division of Finance and Administration provides comprehensive fiscal management and accounting for both state and federal funds, including budgeting, receipts, disbursements, and reporting for the department. It also provides technical and fiscal assistance to the local school systems and certain agencies of state government.

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

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## PRIOR AUDIT FINDINGS

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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 October 25, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.



## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Department of Education has corrected previous audit findings concerning applying the current indirect cost rate to each grant, preparing the schedules of federal financial assistance, and closing the fiscal year 1992 Individuals with Disabilities grant.

## **REPEATED AUDIT FINDING**

The prior audit report also contained a finding concerning the timely submission of the final financial status report for the Vocational Education program. This finding has not been resolved and is repeated in this report.

## **PAST FINDING NOT ACTED UPON BY MANAGEMENT**

Prior audits of the Department of Education have contained a finding concerning the need to revise criteria for Career Level I certification because the standards for the certificate are no higher than those for the Professional Teacher's License. The Department of Education has not concurred with the finding, stating that although the standards are the same, they should not be changed because there is a historical reason for their being the same. However, it appears that keeping the same criteria does not meet the legislative objectives of the program.

According to the Department of Education, prior to the enactment of the Comprehensive Education Reform Act of 1984 (CERA), a Professional Teacher's License was the valid credential for all teachers. When the Career Ladder Program was adopted in connection with this act, Career Ladder Certification was not required for teachers who already had a Professional Teacher's License or had taught in Tennessee at least one day prior to July 1, 1984. For all others, the Career Ladder Program was mandatory for licensing. In 1987, when the law was amended to make the Career Ladder Program optional, the Professional Teacher's License was reinstated and Career Ladder certificates became supplementary to the license. However, the steps for attaining the license and the Career Level I Certificate remained the same. The consensus in the Department of Education has been that there should be no change in the steps because increasing the requirements of the Career Level I Certificate, which had been the required basic teaching credential, would in a sense make the Professional Teacher's License appear substandard.

However, in not raising the standards, the department apparently has not met the legislative intent of the Career Ladder Program. According to Section 49-5-5002(e), *Tennessee Code Annotated*, "It is the intent of the general assembly that the salary supplements provided for therein be awarded on the basis of outstanding performance and that the standards utilized for this purpose be kept high." Currently, virtually all teachers eligible to participate in the Career Ladder Program will immediately qualify for the Career Level I Certificate upon receiving their Professional Teacher's License.

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## OBSERVATIONS AND COMMENTS

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*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, 1995, the Department of Education filed its compliance report and implementation plan on June 30, 1995.

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 ground of race, color, or national 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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for the Title VI compliance and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

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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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control Structure

As part of the audit of the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1995, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the state's general-purpose financial statements as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

## Compliance with Laws and Regulations

With respect to the items tested, the Department of Education complied with the provisions of laws, regulations, contracts, and grants that may have a material effect on the state's general-purpose financial statements. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

**Report on the Internal Control Structure Based on an  
Audit of the General-Purpose Financial Statements Performed in  
Accordance with *Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the general-purpose financial statements of the State of Tennessee, as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995. The Department of Education is part of the primary government of the State of Tennessee.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

The Department of Education's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass  
December 21, 1995  
Page Two

In planning and performing our audit of the state's general-purpose financial statements for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the Department of Education's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/mm

## FINDINGS AND RECOMMENDATIONS

### THE DEPARTMENT'S FEDERAL DRAWS WERE NOT ADEQUATELY SUPPORTED

#### 1. FINDING:

The Department of Education could not always provide support for the funds requested and received from or refunded to the United States Department of Education (USDOE) and the United States Department of Agriculture (USDA).

The department could not provide supporting documentation for the following amounts that were requested and received from USDOE:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Grant Year</u>	<u>Amount</u>
84.151	Chapter 2 - State Block Grants	1994	\$89.53

This item will be listed as a questioned cost on the Schedule of Noncompliance and Questioned Costs.

The department could not provide supporting documentation for the following amount that was refunded to USDOE:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Grant Year</u>	<u>Amount</u>
84.151	Chapter 2 - State Block Grants	1994	\$1,449.15

Since the department refunded this amount, no costs will be questioned.

In addition, documentation for \$2,265,803.50 of drawdowns and \$479,149.44 of refunds from USDOE and USDA was not attached to the corresponding draw journal vouchers nor was the documentation maintained in a way that made retrieval easy. Documentation was located for these amounts well after the completion of audit testwork. Also, department personnel could not provide an explanation why the amount requested and received from the USDOE and USDA was less than the amount indicated on the department's in-house grant draw report. The department's draw procedures require that the amount of funds requested be determined by using the department's in-house draw report.

RECOMMENDATION:

Management should ensure that the grant accountants attach adequate supporting documentation to each draw made from the U.S. Department of Education and the U.S. Department of Agriculture. Additionally, management should ensure that the grant accountants document an explanation for any variances between the amount of funds requested and the in-house grant draw report.

MANAGEMENT'S COMMENT:

We concur. The department's procedure is to attach all supporting data to the STARS 833 draw-down report and to use the report as the basis for all draws. The Department of Finance and Administration, Office of Cash Management, has been monitoring the process on a regular basis and has responded that the process is working satisfactorily. An adjustment to correct the \$89.53 questioned cost was made early in the 1995 grant year.

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THE FINAL FINANCIAL STATUS REPORT FOR THE VOCATIONAL  
EDUCATION PROGRAM WAS NOT SUBMITTED ON TIME

2. FINDING:

As noted in the two prior audits, the department did not complete and submit the final Financial Status Report for the Vocational Education program in a timely manner. Office of Management and Budget's "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)," Section .41(b)(4), requires that grant recipients submit the final Financial Status Report no later than 90 days after the end of the specified reporting period. It also states that an extension to the date may be granted if the recipient requests one.

The final Financial Status Report for the fiscal year 1993 grant was due December 31, 1994. As of December 14, 1995, the department had not submitted the report or requested an extension.

Because the final Financial Status Report had not been completed and because the Financial Status Report contains the final expenditure amounts for the fiscal year 1993 Vocational Education grant, we were unable to determine if the department met the minimum percentage requirements for expenditures on each program area.

Management concurred with the prior audit finding but failed to submit the report on time this year.

RECOMMENDATION:

The Department of Education should complete and submit the final Financial Status Report for the Vocational Education program to the U.S. Department of Education in a timely manner.

MANAGEMENT'S COMMENT:

We concur. We will be working with the department's program staff and the appropriate federal officials to come to an acceptable reporting time frame.

**Compliance Report Based on an Audit of the  
General-Purpose Financial Statements Performed in  
Accordance With *Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995. The Department of Education is part of the primary government of the State of Tennessee.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Education is the responsibility of the department's management. As part of obtaining reasonable assurance about whether the general-purpose financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass  
December 21, 1995  
Page Two

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the Department of Education's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

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