

Department of Education

**For the Year Ended
June 30, 1997**

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March 5, 1998

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, 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, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 of Education'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.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/099

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, 1997

AUDIT SCOPE

We have audited the Department of Education for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and the Tennessee Single Audit Report for the same period. 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 and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDING

Amounts Not Accurately Reported*

Some amounts reported on the Adult Basic Education Financial Status Reports were based on required percentages rather than on expenditures made. In addition, the reports were not adequately reviewed for mathematical accuracy and logic (page 5).

* This finding is repeated from the prior audit.

"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, 1997

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Department of Education For the Year Ended June 30, 1997

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 create world-class schools that prepare elementary and secondary students to compete nationally and globally through the use and understanding of technology. In order to fulfill this mission, the department carries out its mandate through an administrative staff and two major divisions: the Division of Finance, Accountability, and Technology and the Division of Teaching and Learning. Technical assistance and monitoring are provided on a statewide basis through the department’s central office and through consultants in six field offices.

The administration and the Tennessee General Assembly have implemented an education improvement package called the 21st Century Schools Program. This program reduces class size at every grade level and provides funds for additional reductions in primary grade classes with high concentrations of at-risk students. State funds have provided high-tech equipment for classrooms and school libraries, and a management information system links schools with central offices and the State Department of Education. Other improvements include additional materials and supplies for teachers; new textbooks for students; and increased capital outlay, maintenance, and operational support for schools. Underlying the plan’s initiatives is the goal of preparing today’s students for the challenges and jobs of the 21st century. The governor and commissioner of education have appointed a Goals 2000 Task Force to help Tennessee reach state and national goals for education by the end of this century.

The department allocates state and federal funds to the 139 public school systems in Tennessee which annually serve approximately 852,000 students and employ more than 55,000 teachers, principals, supervisors, and other professional employees statewide.

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, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and to the Tennessee Single Audit Report for the same period. 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 and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 control 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: School Breakfast Program, National School Lunch Program, Title I Grants to Local Education Agencies, Special Education—Grants to States, and 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.

We have issued an unqualified opinion on the general-purpose financial statements of the State of Tennessee in our Independent Auditor's Report dated December 17, 1997, which is included in the CAFR for the year ended June 30, 1997. The Tennessee Single Audit Report for the year ended June 30, 1997, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We determined that the amounts presented on the Adult Basic Education Financial Status Reports were not adequately documented, as discussed in the following finding. In addition to the finding listed below, other minor weaknesses came to our attention which have been reported to management in a separate letter.

FINDING AND RECOMMENDATION

The Adult Basic Education Financial Status Reports were not accurately prepared

Finding

As noted in the previous audit, the amounts reported by the department on the Adult Basic Education Financial Status Reports, for the period ended June 30, 1996, for Section 353 Special Projects, Section 353 Training, and Institutionalized Persons were based on required federal percentages rather than on actual expenditures according to the grant accountant. The reports cover grant years 1994, 1995, and 1996. *Code of Federal Regulations*, Title 34, Section 461.33(b), indicates that the state shall use at least 10 percent of its grant for training and an additional 5 percent for training, special projects, or both. Section 461.32(a), states, “[The state] shall use not less than 10 percent of its grant for educational programs for criminal offenders in corrections institutions and for other institutionalized adults.” In addition, Section 461.10(4) states, “The [state] will provide such fiscal control and fund accounting procedures as may be necessary to ensure proper disbursement of, and accounting for, Federal funds paid to the State.”

The grant accountant uses expenditure amounts posted on the State of Tennessee Accounting and Reporting System (STARS) to prepare a worksheet that supports the amounts reported on the financial status report. Although the Section 353 expenditures are posted to STARS, expenditures for Special Projects and Training are not uniquely coded. Separate grant codes have been established by the grant accountant for this purpose, but the program area personnel, who determine how the expenditure should be coded to STARS, have not used these grant codes. Expenditures for Institutionalized Persons are posted to STARS as “program of instruction” expenditures. No separate account or grant code has been established for Institutionalized Persons expenditures. Because these expenditures have not been maintained separately, the department can not prove that it disbursed federal funds in compliance with federal requirements.

Management concurred with the prior finding and indicated that fiscal year 1997 grant expenditures were being recorded in a manner that would allow for proper reporting. They provided us with a copy of the revised reporting document that the Local Education Agencies (LEAs) are required to submit. This form appears to require information that would properly track expenditures. However, these reports were not used for grant years 1994, 1995, and 1996.

In addition, the Financial Status Reports were not adequately reviewed for mathematical accuracy and logic. The Financial Status Report for grant year 1996 included two lines which did not crossfoot. The report also contained two amounts that were not adjusted to reflect a change in the authorized grant award and two amounts for unliquidated obligations that did not reconcile with the accounting records. The Financial Status Report for grant year 1995 included an amount for “Net Outlays Previously Reported - Institutionalized Persons” which was \$473,861 more than previously reported. No documentation was provided to explain the difference.

Recommendation

The Director of the Division of Adult and Community Education should ensure that the amounts reported on the Adult Basic Education Financial Status Report for Section 353 Special Projects, Section 353 Training, and Institutionalized Persons represent the expenditures made in each area rather than the percentages required by federal regulations. The director should also ensure that adequate documentation exists to support the expenditures. Program area personnel should use the established grant codes in STARS to record Section 353 Special Projects and Section 353 Training expenditures. A method to separately record expenditures for Institutionalized Persons should be established. Management should periodically review the procedures used to record the expenditures to ensure that established grant codes are used and that the amounts reported on the Adult Basic Education Financial Status Report for Section 353 Special Projects, Section 353 Training, and Institutionalized Persons are based on the expenditures made in each area. Additionally, the Financial Status Report should be reviewed to ensure the mathematical accuracy and logic of reported amounts.

Management's Comment

We concur with the finding concerning ABE Financial Status Reports. The finding addresses the reporting of Section 353 and institutionalized expenditures. The finding illustrated the need for separate grant codes to identify expenditures in the aforementioned funding areas.

The Director of the Division of Adult and Community Education has established separate grant codes for Section 353 funding into two categories. One for staff development and one for special projects as outlined by the Adult Education Act. An additional code was developed for institution funding. Separate codes will enable the Division of Adult and Community Education to track funding and expenditures more accurately. The new grant codes have been used since the 1996-97 fiscal year. Additionally, a computer program has been developed by the United States Department of Education for each state's use to prepare the Financial Status Report with the intent of eliminating mathematical errors. This program has been implemented also.

We believe that your office will find the Division of Adult and Community Education in compliance with reporting requirements.

REVENUE

The objectives of our review of revenue controls and procedures were to determine whether

- the department reconciled revenue records with revenue reports;
- the department maintained proper documentation for each journal voucher;
- the department had procedures for collecting bad checks;
- departmental controls ensured that each transaction was properly documented, that receipts agreed with amounts deposited, that deposit slips were completed properly, that departmental records were reconciled with STARS, and that funds were properly controlled and deposited intact;
- the department ensured that revenue functions were adequately segregated; and
- the department complied with written policies regarding timely deposits of funds received.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over receiving, receipting, controlling, safeguarding, and depositing funds. We also reviewed supporting documentation and tested nonstatistical samples of revenue transactions. We had no findings related to revenue.

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;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;

- 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 20. We also performed testwork to determine the amount of the grants used by the department, to determine if all grant-related expenditure and revenue transactions were coded with the proper grant code when the initial transaction was recorded, to trace requests for payment to receipts and departmental grant ledgers, and to determine if drawdowns were made at least weekly. We had no findings related to Department of Finance and Administration Policy 20.

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 December 1, 1997. 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 the untimely depositing of cash receipts and the establishment of unauthorized fiscal-agent accounts.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning the accuracy of amounts presented on the Adult Basic Education Financial Status Report. This finding has not been resolved and is repeated in the applicable section of this report.

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, 1997, the Department of Education filed its compliance report and implementation plan on June 30, 1997.

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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for 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.

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 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 Programs
331.10	Career Ladder Program
331.11	Accountability
331.12	Goals 2000, Educate America Act
331.25	Basic Education Program (BEP)
331.35	School Nutrition Programs
331.36	Special Education Services
331.43	State 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-Knoxville
331.93	West Tennessee School for the Deaf-Jackson
331.95	Early Childhood and Family Services
331.97	Major Maintenance

