

**Department of Education**

**For the Year Ended  
June 30, 1999**

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Editor

February 9, 2000

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, 1999.

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

JGM/mb  
99/090

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, 1999

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## AUDIT SCOPE

We have audited the Department of Education for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, 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 government auditing standards.

## AUDIT FINDING

### **Weak Internal Controls over Expenditures for the Education Edge Project**

Internal controls over expenditures for the Education Edge project are weak. As a result, proper documentation was not always obtained for expenditures and an informally authorized employee was allowed to approve expenditures. When no controls exist, payments may be made for goods or services that were not received (page 4).

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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, 1999**

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# Department of Education For the Year Ended June 30, 1999

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## INTRODUCTION

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### 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 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 Twenty-first 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 21<sup>st</sup> 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 138 public school systems in Tennessee which annually serve approximately 892,000 students and employ more than 62,000 teachers, principals, supervisors, and other professional employees statewide.

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

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## **AUDIT SCOPE**

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We have audited the Department of Education for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, 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 government auditing standards.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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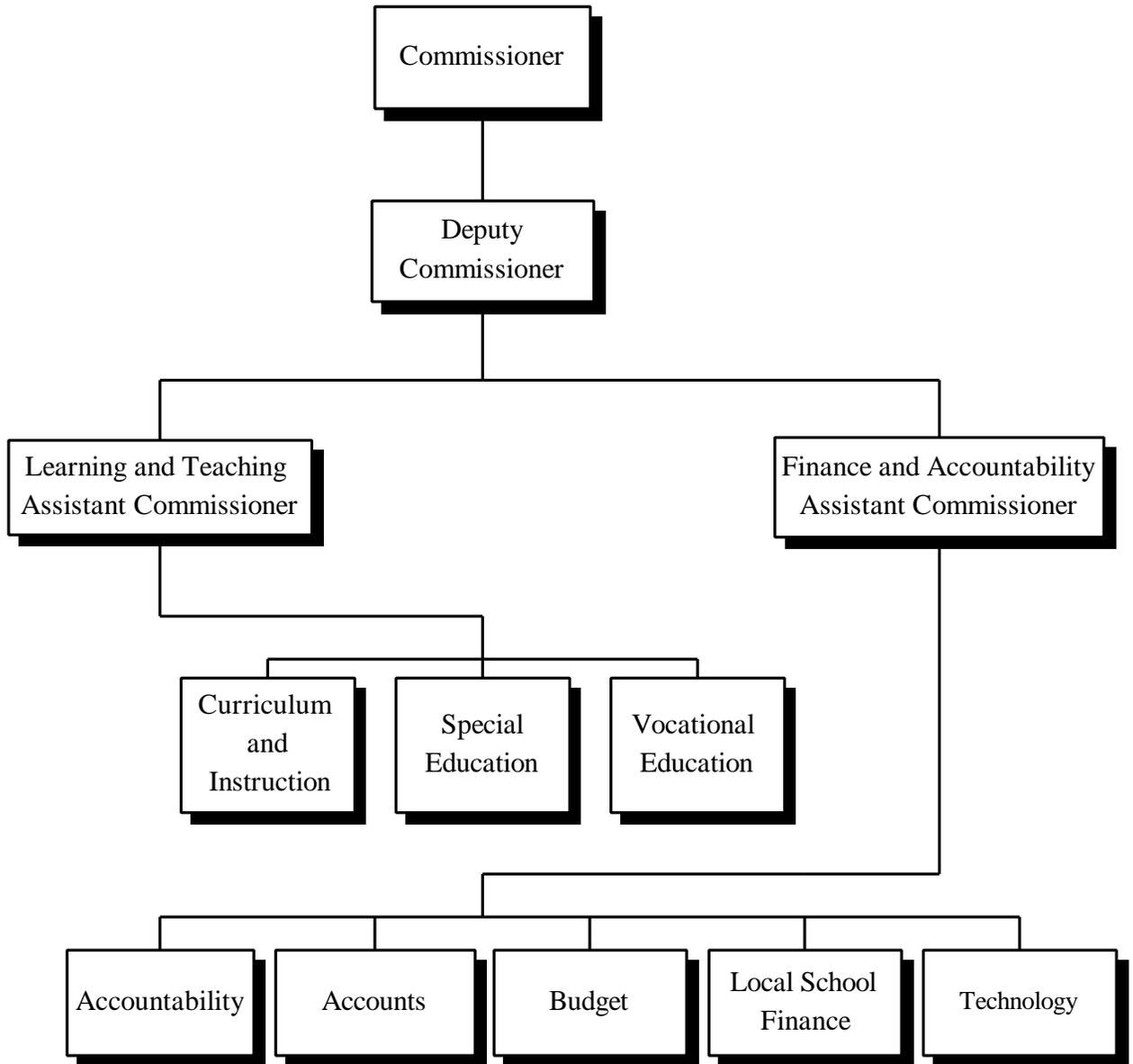
### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

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.

# Department of Education Organization Chart



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 10, 1999, which is included in the CAFR for the year ended June 30, 1999. The Tennessee Single Audit Report for the year ended June 30, 1999, 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 internal controls over expenditures by the Education Edge project are weak as discussed in the finding. In addition to the finding, other minor weaknesses came to our attention and have been reported to management in a separate letter.

### **Internal controls over expenditures for the Education Edge project are weak**

#### **Finding**

Internal controls over expenditures for the Education Edge project are weak. As a result, proper documentation was not always obtained for expenditures and an informally authorized employee was allowed to approve expenditures. Of 27 expenditure transactions tested, 15 (55.56%) contained invoices totaling \$4,201.78 that did not have supporting documentation. In addition, the Executive Director of the Education Edge project, a state employee who was not formally authorized by the Department of Education to approve expenditures, approved three of 27 expenditure transactions tested (11.12%). None of the payments appeared to be improper and none were payable to the executive director.

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. Management's responsibility for establishing effective internal controls also includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When no controls exist, payments may be made for goods or services that were not received.

## **Recommendation**

The Department of Education should ensure that all invoices are supported by adequate documentation and approved by formally authorized personnel.

## **Management's Comment**

We concur. We have already taken several steps to ensure that invoices are properly supported with documentation and that designated employees are officially authorized to approve payment transactions.

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## **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 samples of revenue transactions. We had no findings related to revenue; however, some minor weaknesses came to our attention and have been reported to management in a separate letter.

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**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 Statement 20. We also performed testwork to determine how much of each grant award the department spent, 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 the Department of Finance and Administration’s Policy 20.

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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 September 24, 1999. 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 signature authorization forms that were not properly completed and the failure to obtain fully executed contracts before the contract period began.

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## **OBSERVATIONS AND COMMENTS**

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### **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, 1999, the Department of Education filed its compliance report and implementation plan on June 29, 1999.

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, 1999, and each June 30 thereafter. The compliance report and implementation plan were filed June 29, 1999, 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.

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## APPENDIX

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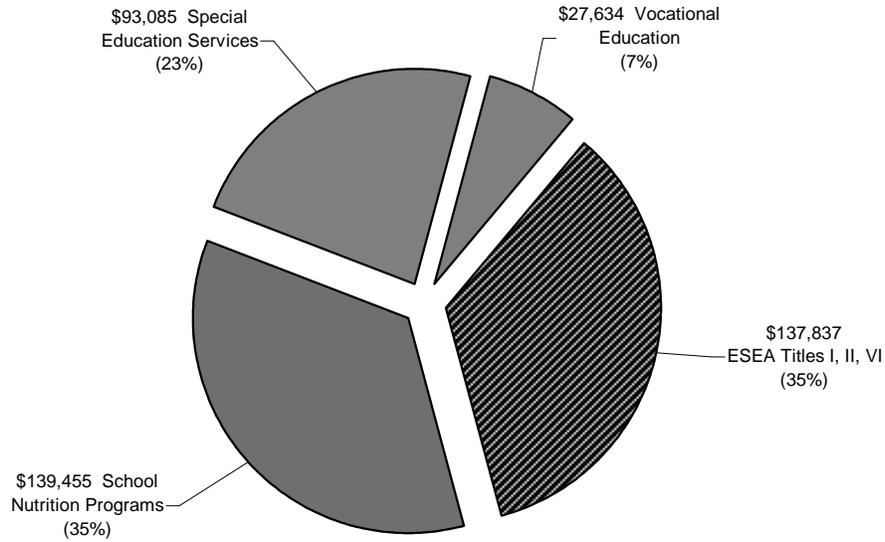
### DIVISIONS AND ALLOTMENT CODES

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 Early Childhood Services
331.97	Major Maintenance

## Major Federal Programs

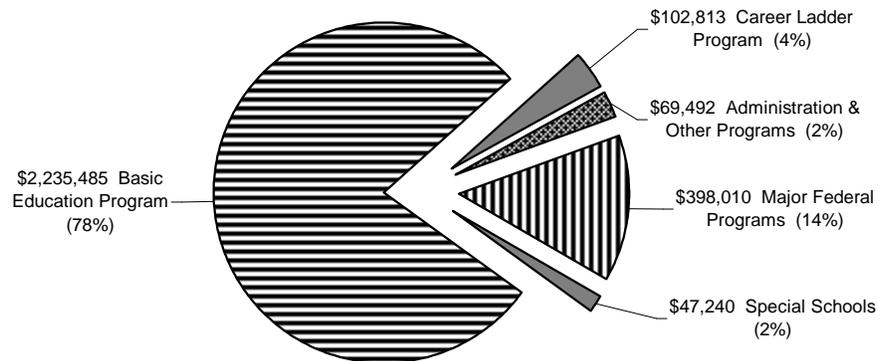
For Fiscal Year Ended June 30, 1999 (Unaudited)  
(Amounts Expressed in Thousands)



Source: Department of Education

## Expenditures by Allotment and Division

For Fiscal Year Ended June 30, 1999 (Unaudited)  
(Amounts Expressed in Thousands)



Source: Department of Education