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[Audit Report](#) for Tennessee Department of Revenue

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**Comptroller's Audit of Tennessee Department of Revenue Finds  
Inadequate Internal Controls Increased Risk of Fraud, Waste and Abuse**

**NASHVILLE, Tenn.** – The Tennessee Comptroller of the Treasury's Division of State Audit today released a financial and compliance audit report on the Tennessee Department of Revenue for the period covering April 1, 2006, through April 30, 2007. The audit found that inadequate internal controls within certain areas of the department increased its risk of fraud, waste, and abuse.

"We audit state agencies to promote accountability, enhance fiscal integrity, and encourage constructive change. We hope this audit will be used as a tool for the Tennessee Department of Revenue to ensure taxpayers' resources are handled with care and accounted for appropriately," says Arthur Hayes, director of the comptroller's Division of State Audit.

An example of the seriousness of risks is the finding that the department's motor carrier section did not have adequate system controls; was not able to account for all pre-numbered cash receipts for commercial vehicle registration fees; and could not ensure that the fees were all collected and recorded. The motor carrier section collects over \$52 million annually in registration fees from commercial vehicle operators for tags, decals, and cab cards as part of the International Registration Plan. In light of the large amount of funds involved — some transactions are in excess of \$200,000 — the risk is potentially material.

In light of the lack of adequate controls and requisite, reliable records, neither state auditors nor internal auditors were able to determine whether all funds were accounted for. The audit recommends that the department's internal auditors continue to follow up on the problems noted to determine if funds are missing. Tennessee Code Annotated, Section 8-19-501 requires any official of any agency of the state to immediately report to the Comptroller of the Treasury any shortages of moneys of the state, or unauthorized removal of state property, brought about by either malfeasance or misfeasance in office of any state employee.

"It is management's responsibility to ensure that appropriate controls are in place and operating effectively. The inadequacy of controls over these areas increased the department's risk of fraud, waste and abuse," states Mr. Hayes. "By taking the initiative to follow the recommendations in

the audit, I believe the Department of Revenue will be able to add more accountability to the cash receipting process in the motor carrier section.”

The following findings and recommendations, including responses from the Department of Revenue’s management staff, are included in the report:

1. With the absence of effective controls and heightened risk of fraud in the Department of Revenue’s Motor Carrier Section, neither management nor the auditors could ensure that all cash receipts for registration fees were collected and recorded.  
[http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding\\_1](http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding_1)
2. The Department of Revenue’s Tax Enforcement Division and Motor Carrier Section failed to adequately communicate in order to effectively update the dishonored checks list, and the Tax Enforcement officers did not effectively pursue collection of dishonored checks.  
[http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding\\_2](http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding_2)
3. Management of the Department of Revenue did not adequately mitigate the risks of fraud, waste, and abuse relative to motor vehicle registration revenue collections in the Motor Vehicle Title and Registration Division.  
[http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding\\_3](http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding_3)
4. The department has not established adequate controls over purchases made through E-Way, increasing the risk of unauthorized purchases.  
[http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding\\_4](http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf#Finding_4)

The full audit report may be found online at:

<http://www.comptroller1.state.tn.us/repository/SA/ag07043.pdf>

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The Comptroller of the Treasury’s Division of State Audit conducts financial and compliance, waste and abuse, information system, and performance audits; conducts investigations; and performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state’s financial condition and the performance of the state’s many agencies and programs. The mission of the Office of the Tennessee Comptroller of the Treasury is to improve the quality of life for all Tennesseans by making government work better.

A toll-free hotline is provided for citizens to report fraud, waste, and abuse of government funds and property. If you observe an agency director or employee engaging in any activity which you consider to be illegal, improper, or wasteful, please call the fraud, waste, and abuse hotline at 1.800.232.5454.

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