

Office of the Comptroller of the Treasury

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

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June 7, 2000

Members of the General Assembly
and
The Honorable John G. Morgan
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of the Comptroller of the Treasury for the year ended June 30, 1999.

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance. Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. Administration of the Comptroller's Office 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.

Sincerely,

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

AAH/dds
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Office of the Comptroller of the Treasury
For the Year Ended June 30, 1999

AUDIT SCOPE

Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, and interdepartmental contracts.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

AUDIT FINDING

Medicaid/TennCare Section Did Not Comply With Interdepartmental Contract Provisions
Contractual requirements to provide audit services for the Medicaid/TennCare programs were not met. Additionally, services were provided before the contract was approved (page 7).

"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
Office of the Comptroller of the Treasury
For the Year Ended June 30, 1999

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Office of the Comptroller of the Treasury For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of the Comptroller of the Treasury. 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 Comptroller of the Treasury is a constitutional officer elected by a joint vote of the General Assembly for a two-year term. Although no duties are prescribed through the constitution, the functions and duties of the office are assigned through various legislative enactments.

The Office of the Comptroller of the Treasury is organized into several divisions to discharge its statutory duties. The basic functions of each division are described below.

The Division of Administration provides administrative services for all divisions of the Comptroller’s Office.

The Office of Management Services provides fiscal services for all divisions.

The Capitol Print Shop provides duplicating and printing services for the General Assembly and other legislative agencies.

The Division of State Audit is responsible for the post-audits of the departments and agencies in state government, including the Single Audit of the State of Tennessee. The Medicaid/TennCare section provides audit, rate setting, and consulting services for the Medicaid nursing facility program. The performance audit section provides independent examinations of the extent to which agencies and departments of state government are faithfully carrying out their programs. The special investigations section gathers information and evidence resulting in prosecutions and/or recovery of funds and coordinates the efforts of other agencies involved in the investigation. The information

systems section of the division provides retrieval services as well as performing systems audits of computer systems.

The Division of County Audit is responsible for the post-audit of the accounts and records of all county offices in each of the state's 95 counties.

The Division of Municipal Audit monitors the audits of all municipal governments, special districts, and school activity funds in the state.

The Division of Bond Finance is responsible for the management of the state debt, including the issuance of all bonds and notes and the payment of bonds and coupons.

The Division of Local Finance is responsible for the management of certain local governments' debts.

The Office of Local Government formulates policies and guidelines on issues relevant to local government and provides information and assistance to local government officials. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census. The office also calculates the distribution schedule for the Tennessee Revenue Sharing Act.

The Offices of Research and Education Accountability are responsible for providing research and analyses to the General Assembly, the Comptroller, other state agencies, and the public on issues affecting state and local governments and for improving the accountability of Tennessee's education system.

The Division of Property Assessments is responsible for assisting local governments in assessing property for tax purposes throughout the state, for administering the property tax relief program, and for carrying out the statewide reassessment program.

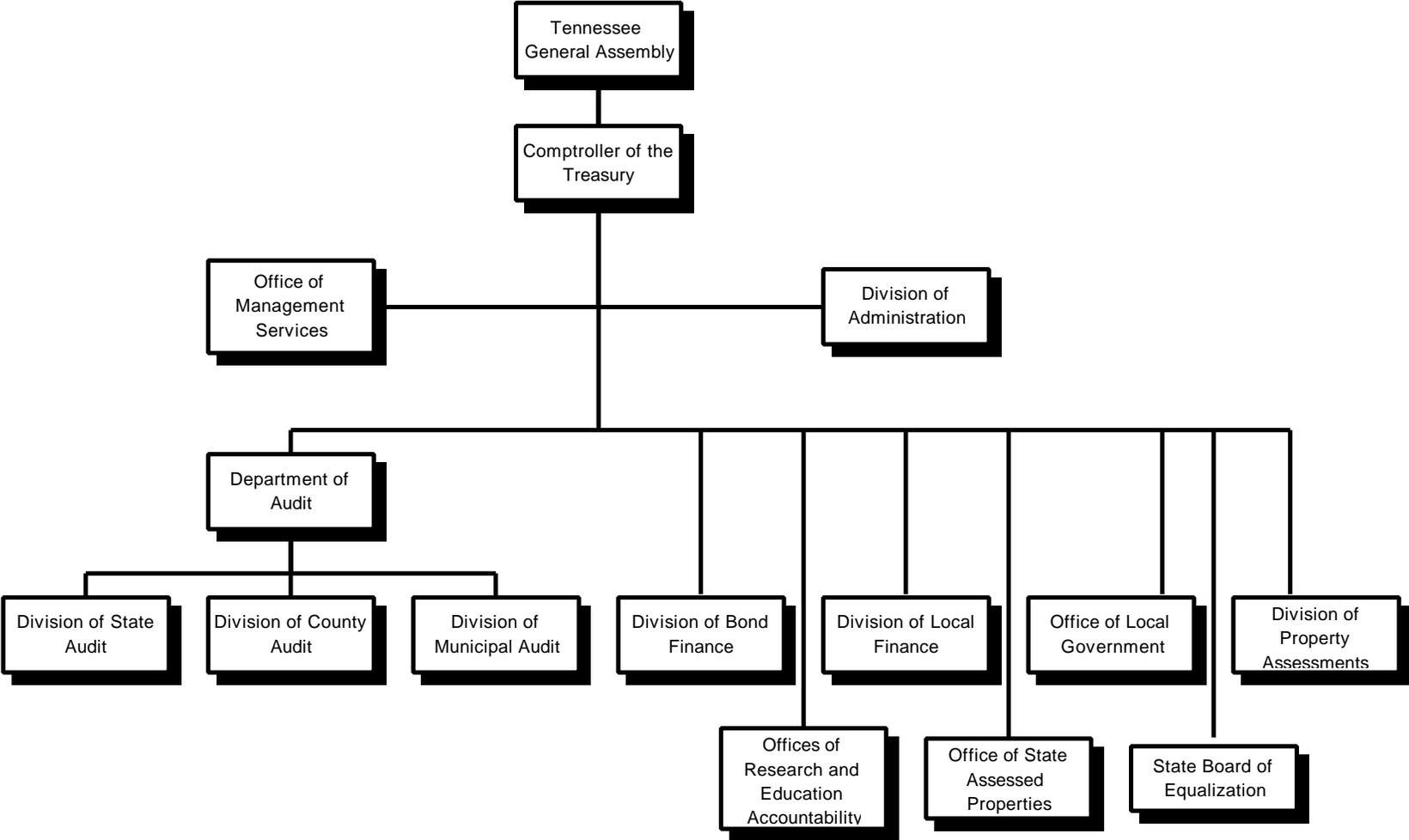
The Tax Relief Program provides funds for refunding property taxes to qualified taxpayers, in accordance with Section 67-5-701, *Tennessee Code Annotated*.

The State Board of Equalization, a quasi-judicial body attached to the Comptroller's Office for administrative purposes, is responsible for developing policies and procedures governing property taxation and for hearing appeals from property owners.

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

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

Office of the Comptroller of the Treasury



AUDIT SCOPE

Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, and interdepartmental contracts.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

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 Comptroller of the Treasury filed its report with the Department of Audit on March 30, 1999. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Office of the Comptroller of the Treasury has corrected the previous audit finding concerning information in the equipment inventory system.

OBJECTIVES, METHODOLOGIES, AND RESULTS

REVENUE

Our objectives in reviewing revenue controls and transactions were to determine whether

- revenue transactions appeared correct and valid;
- cash collected during the fiscal year was deposited timely and accounted for in the appropriate fiscal year;
- fees had been billed or charged and recorded at the correct amount; and
- petty cash or change funds had been authorized in accordance with state regulations.

Key personnel were interviewed to gain an understanding of the office's procedures for controls over revenue. We observed personnel and reviewed relevant documents for evidence of compliance with the office's control procedures. We also reviewed supporting documentation and tested a nonstatistical sample of revenue transactions for proper support and for compliance with the appropriate requirements relating to receipting, recording, and depositing funds. Also, the transactions were tested for compliance with the Department of Finance and Administration's policy for timely deposit.

Based on our interviews, observations, review of supporting documentation, and testwork, it appears that the office's internal controls were in place, the revenue transactions were in compliance with the applicable requirements, the funds were properly deposited intact, the revenue functions were adequately segregated, and the Department of Finance and Administration's policy for timely deposits was followed.

ACCOUNTS RECEIVABLE

Our objectives in reviewing accounts receivable transactions were to determine whether

- revenue amounts uncollected at the end of the fiscal year were recorded as receivables;
- receivables were stated at the net realizable amount;
- management performed adequate collection efforts; and
- receivables shown on the books were actual receivables, and whether cash had not already been received to reduce the amounts.

We interviewed key personnel to gain an understanding of the office's procedures for and controls over accounts receivable, aging, and writing off bad debts. We observed personnel and reviewed relevant documents for evidence of compliance with the office's control procedures. We also reviewed supporting documentation and tested a nonstatistical sample of account balances at June 30, 1999. Confirmations were mailed to customers in order to determine the validity of the account balances.

Based on our interviews, review of supporting documentation, and testwork, it appears that the office's internal controls were in place and accounts receivable transactions were properly recorded. However, other minor weaknesses came to our attention and were reported to management in a separate letter.

EXPENDITURES

Our objectives in reviewing expenditure controls, procedures, and transactions were to determine whether

- expenditures for goods or services have been identified and recorded correctly;
- recorded expenditures were for goods or services authorized and received;
- payments were made in a timely manner;
- the office reconciled its expenditure records with Department of Finance and Administration accounting reports;
- payments for travel were made in accordance with the Comprehensive Travel Regulations;
- funds encumbered were liquidated for the same purpose as the original encumbrance; and
- procedures regarding year-end cutoff of encumbrances and accounts payable were adequate to reflect proper amounts and all material outstanding obligations.

We interviewed key personnel to gain an understanding of the office's procedures for and controls over recording and reconciling expenditure transactions. We observed personnel and reviewed relevant documents for evidence of compliance with the office's control procedures. We reviewed supporting documentation and tested nonstatistical samples of expenditure transactions to determine if they were correctly identified, recorded, and authorized, and we looked for evidence that goods and services were received. We also tested the liquidation of encumbrances and reviewed reconciliations of office records with the Department of Finance and Administration accounting reports.

Based on our testwork, expenditures were properly identified, recorded, and authorized, and goods and services were received. Also, encumbered funds were liquidated properly, and the office's records were reconciled with Department of Finance and Administration accounting reports.

EQUIPMENT

Our primary objective in the area of equipment was to follow up the status of the prior audit finding. Our specific objectives in reviewing equipment were to determine whether

- purchases of equipment were accurately recorded on the inventory systems;
- the office's equipment listing agreed to the state's property listing;
- depreciation was accurately calculated and recorded;
- equipment was properly safeguarded;

- equipment was properly recorded on the property listing; and
- equipment could be located.

Key personnel were interviewed to gain an understanding of the office's procedures for and controls over equipment. We observed personnel and reviewed relevant documents for evidence of compliance with the office's control procedures. We also reviewed supporting documentation and tested nonstatistical samples of equipment purchased during the audit period and equipment included on the property listing at the time of the audit. A sample of equipment purchased during the period was located, the serial and state tag numbers were traced to the equipment listing, and the supporting documents were reviewed and compared to the equipment listing to ensure proper recording. Items on the listing were located, and the serial and state tag numbers were confirmed. Supporting documentation for items removed from the listing during the audit period was also reviewed and the depreciation calculation was reviewed.

Based on our interviews, observations, and review of supporting documentation, it appears that the office's internal controls were in place. Based on testwork, equipment purchased during the period was recorded on the equipment inventory records for the correct amount. Overall, the equipment listings included the correct serial and tag numbers for sample items. Management was informed, in a separate letter, of some errors on serial numbers.

INTERDEPARTMENTAL CONTRACTS

Our review in the Department of Health of an interdepartmental contract between the Department of Health and the Office of the Comptroller of the Treasury included a review to determine whether the office complied with the terms of the contract. We determined that the office did not comply with the provisions of the interdepartmental contract.

Medicaid/TennCare Section of the Comptroller's Office did not comply with interdepartmental contract provisions

Finding

The Medicaid/TennCare Section of the Comptroller's Office did not comply with the provisions of its interdepartmental contract with the Department of Health for audit and oversight services for the period October 1, 1998, to September 30, 1999.

The Comptroller's Office entered into a contract with the Department of Health to provide auditing services related to the Tennessee Title XIX Medicaid program. The contract also required that both agencies coordinate efforts to comply with state and federal reporting requirements.

TennCare's State Plan defines the applicable state compliance rules for this contract. The plan contains the following audit requirements:

On-site audits of the financial and statistical records will be performed each year in at least 15% of the participating facilities. At least 5% of these shall be selected on a random sample basis and the remainder shall be selected on the basis of the desk review or other exception criteria.

Furthermore, Section A3 of the contract states, "Both parties agree to coordinate their efforts to meet reporting dates and deadlines determined by state or federal agencies."

Currently, 323 long-term care facilities in Tennessee participate in the Title XIX Medicaid program. During the audit period, the Medicaid/TennCare Section of the Comptroller's Office performed desk reviews of all long-term care facilities' cost reports. However, 15% of the long-term care facilities did not receive field audits as required by the State Plan. Only one report was released during the period July 1, 1998, to June 30, 1999.

Furthermore, although the contract period began on October 1, 1998, final approval was not obtained until November 24, 1998. The desk reviews of long-term care facilities' cost reports began on October 1, 1998, prior to final approval.

Recommendation

The Medicaid/TennCare Section of the Comptroller's Office should take steps to ensure compliance with the contract terms. In addition, the Office of the Comptroller and the Department of Health should ensure that approved contracts are in place at the start of each program year before services are provided.

Management's Comment

We concur that we are not in compliance with the current state plan provision requiring 15% annual audit coverage of Medicaid long-term care providers. We have requested that the TennCare Bureau apply for a change in the plan to delete the 15% requirement, which is no longer federally mandated, and replace it with language that refers to a level of auditing necessary to assure reasonable compliance with program rules. TennCare has agreed to file the plan change. If approved, it will be retroactive to April 1, 2000.

Since the TennCare waiver began in 1994, we have focused audit resources on the managed care organizations (MCOs) and relied mostly on an aggressive desk review process to verify the accuracy of cost reports submitted by long-term care providers. The MCOs do not file cost reports, and represent a greater risk of noncompliance with program requirements. Regardless of the 15% provision in the present state plan, we recognize the need to increase the number of long-term provider audits that are conducted and are now working in that direction.

Our commitment at this time is to add at least three more staff to long-term care audits and allocate some current resources back to this area without affecting the level of work needed on TennCare MCOs. By 2001, field audits of long-term care providers should be restored to a level that will comply with an amended state plan to assure that reimbursement rates are proper.

We agree that we missed the contract signature date by about seven weeks. There are some stages of the approval process over which we have little control. The contracts seem to navigate the system at a slower pace than in past years. We will address this problem by preparing the contract earlier in the year.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Office of the Comptroller of the Treasury divisions and allotment codes:

307.01	Division of Administration
307.02	Office of Management Services
307.03	Capitol Print Shop
307.04	Division of State Audit
307.05	Division of County Audit
307.06	Division of Municipal Audit
307.07	Division of Bond Finance
307.08	Office of Local Government
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.12	Division of Local Finance
307.14	Offices of Research and Education Accountability
307.15	Office of State Assessed Properties

APPENDIX (CONT.)

The Comptroller is a member of the following:

Advisory Committee on Intergovernmental Relations
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Child Care Facilities Corporation
Competitive Export Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Funding Board
Governor's Council on Health and Physical Fitness
Health Facilities Commission
Higher Education Commission
Housing Development Agency
Information Systems Council
Library and Archives Management Board
Local Development Authority
Local Education Insurance Committee
Local Government Insurance Committee
Public Records Commission
Publications Committee
School Bond Authority
Security for Public Deposit Task Force
Sports Festivals, Inc.
State Capitol Commission
State Insurance Committee
State Trust of Tennessee Board of Directors
Student Assistance Corporation
Tuition Guaranty Fund Board
Utility Management Review Board
Wastewater Financing Board