

**Department of State**

**For the Years Ended  
June 30, 1999, and June 30, 1998**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

August 11, 2000

The Honorable Don Sundquist, Governor  
and  
The Honorable Riley C. Darnell, Secretary of State  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of State for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government 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 of State's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of State 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 controls and/or instances of noncompliance to the Department of State's management in a separate letter.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/mb  
00/055

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of State**  
For the Years Ended June 30, 1999, and June 30, 1998

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## AUDIT SCOPE

We have audited the Department of State for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, payroll and personnel, Division of Charitable Solicitations, Regional Libraries, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (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

### **Cash-Receipting Function Not Adequate\***

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue (page 5).

\* This finding is repeated from prior audits.

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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

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**Audit Report**  
**Department of State**  
**For the Years Ended June 30, 1999, and June 30, 1998**

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# **Department of State**

## **For the Years Ended June 30, 1999, and June 30, 1998**

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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 State. 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**

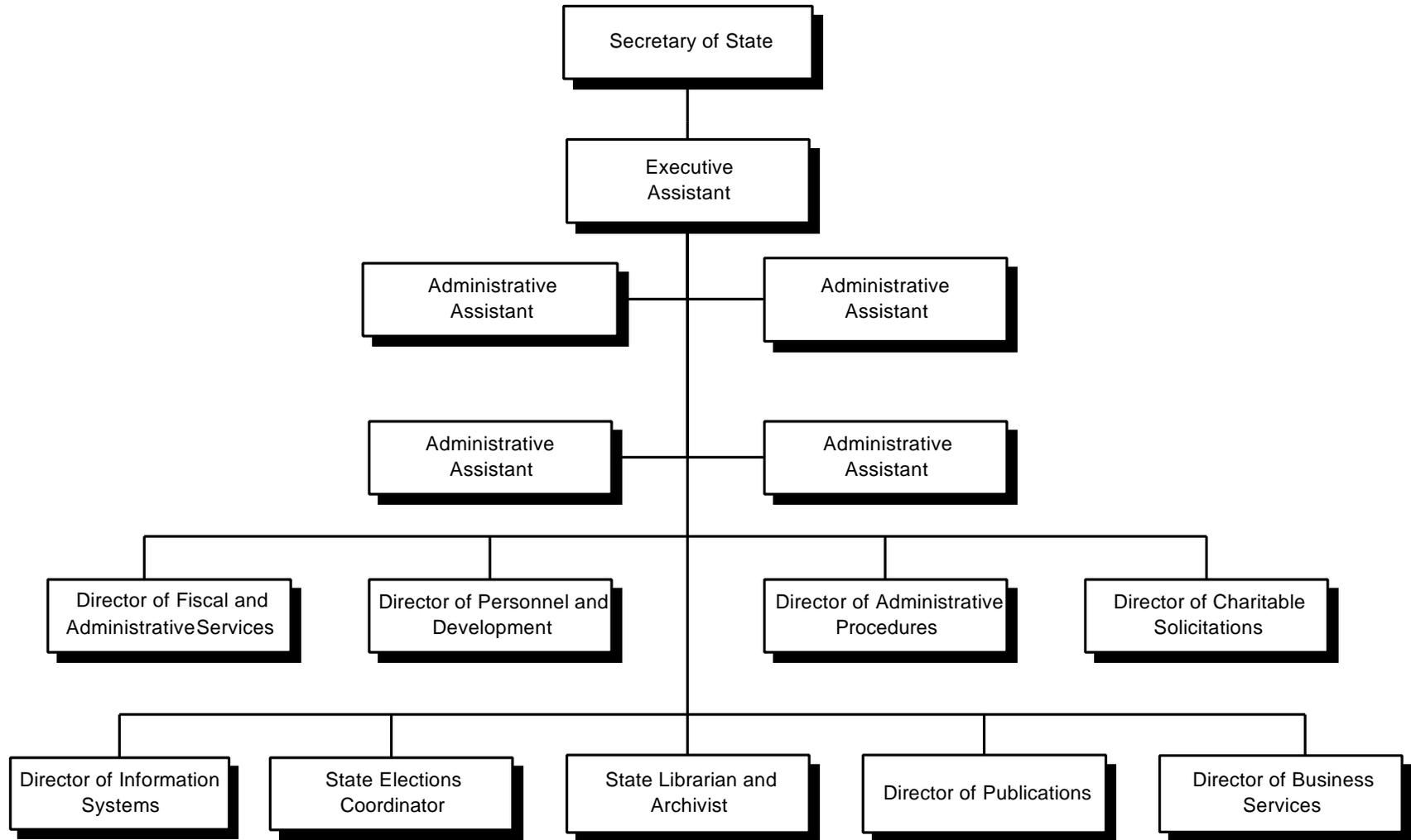
The Secretary of State is one of three constitutional officers provided by Tennessee’s constitution. The Secretary of State, according to the constitution, is to maintain a register of the official acts and proceedings of the Governor and is to be prepared to present them before the General Assembly. Additional functions of the Secretary of State are outlined in the state statutes and regulations.

The Secretary of State is the chief officer of the Department of State. The Department of State keeps the original copies of all acts and resolutions adopted by the General Assembly and signed by the Governor. Certified copies of public and private acts are available for a nominal fee. The department is also required by statute to keep other records: the receipt and recording of corporate charters, the receipt of trademarks, the execution of notary commissions, and the receipt of state administrative regulations.

The Department of State is organized into nine major divisions: Fiscal and Administrative Services, Personnel and Development, Information Systems, Administrative Procedures, Business Services, Charitable Solicitations, State Elections, Library and Archives, and Publications.

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

# Department of State Organization Chart



## **Regional Library System**

The mission of the Regional Library System is to purchase and process library books and other materials for local public libraries, assist local libraries in developing programs and services, and train local librarians and trustees. In addition, bookmobile services are provided to rural areas, day care centers, Head Start programs, and nursing homes.

The Regional Library System consists of 12 multi-county libraries and four metropolitan single-county libraries. Each regional library is governed by a board of directors. The multi-county regional library boards have two representatives from each county in the region. The metropolitan single-county regional library boards have at least seven members representing the county and participating municipalities.

As of July 1, 1999, fiscal management of the regional libraries will be handled through the Department of State. Also, as of July 1, 1999, all full-time employees of the Regional Library System were transferred to the Department of State and became employees of the Office of the Secretary of State.

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### **AUDIT SCOPE**

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We have audited the Department of State for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, payroll and personnel, Division of Charitable Solicitations, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grant module to record the receipt and expenditure of federal funds. The audit included a review of 4 of the 12 multi-county libraries (Clinch-Powell, Fort Loudoun, Reelfoot, and Warioto). The audit was conducted in accordance with generally accepted government auditing standards.

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

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#### **EQUIPMENT**

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

- the information on the department's equipment listed in the Property of the State of Tennessee (POST) system is accurate and complete;
- lost, stolen, and surplused items were removed from POST;
- property and equipment are adequately safeguarded; and
- equipment purchased during the audit period was properly recorded in POST.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over equipment. We reviewed supporting documentation and tested nonstatistical samples of equipment items from the POST system and the State of Tennessee Accounting and Reporting System (STARS). Equipment items were physically located, and description, tag number, serial number, and location were agreed to the POST listing. Equipment items selected that were purchased during the audit period were traced to POST, and the cost was traced to supporting documentation. A nonstatistical sample of equipment items located in the offices was traced back to POST for agreement of pertinent data.

Based on interviews, review of supporting documentation, and testwork, it appears that the department's internal controls were in place; the property listing is accurate and complete; lost, stolen, and surplused items were removed from POST; property and equipment were adequately safeguarded; and equipment purchased during the audit period was properly recorded in POST. We had no findings related to equipment.

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## **REVENUE**

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

- revenue transactions were properly recorded and valid;
- cash collected during the audit period was deposited timely;
- revenue functions were adequately segregated and physical controls over cash were adequate;
- fees were billed or charged and recorded at the correct amount; and
- petty cash or change funds were authorized by the Department of Finance and Administration.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over revenue. We also reviewed supporting documentation for these

procedures and controls. Testwork was performed on a nonstatistical sample of revenue transactions.

Based on interviews, review of supporting documentation, and testwork, it appears that revenue transactions were properly recorded and valid, cash was deposited timely, revenue functions were adequately segregated, physical controls over cash were adequate, fees were charged and recorded in the correct amount, and petty cash funds were authorized. However, we determined that the cash-receipting function of the Corporate Management System is not adequate, as discussed in the finding. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

### **The cash-receipting function of the Corporate Management System is not adequate**

#### **Finding**

As noted in the prior five audits covering nine years, improvements are needed in the cash-receipting procedures of the Corporate Management System (CMS), a computerized system that provides information on corporate filings and other service fees. The system was implemented to simultaneously document services, such as issuing notary commissions and registering trademarks, and receipt the fees collected. The majority of the fees collected flow through this system. However, no controls are in place within CMS to prevent data-entry clerks from assigning the same receipt number to several documents. Therefore, documents could be filed and recorded, even though the proper fee had not been received. Failure to correct the cash-receipting problem could result in a loss of revenue for the department.

Management concurred with the prior findings and documented and reported the cash-receipting problem to Application Programming Support (APS) in the Department of Finance and Administration. APS estimated the cost of correcting the problem would be high. As a result, Department of State management decided to replace CMS with a new system rather than make the necessary program changes to CMS. The new system should be installed in fiscal year 2001.

#### **Recommendation**

Management should continue to pursue the installation of a new system that will ensure documents cannot be filed unless the fee remitted by the customer is sufficient to cover all documents submitted for filing.

#### **Management's Comment**

We concur. Working closely with the Department of Finance and Administration, Office for Information Resources, we are finalizing the Request for Proposal that will lead to the acquisition of the new Corporate Management System.

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## **EXPENDITURES**

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

- expenditures for goods or services were adequately supported and recorded correctly;
- expenditures for goods or services were authorized and in accordance with applicable regulations or requirements;
- payments were made in a timely manner;
- payments for travel were made in accordance with the Comprehensive Travel Regulations; and
- contracts were made in accordance with regulations, and contract payments complied with contract terms and purchasing guidelines.

We interviewed key departmental personnel to gain an understanding of the department's procedures and controls over expenditures. We reviewed supporting documentation and tested a nonstatistical sample of expenditure transactions.

Based on our review of supporting documentation and testwork, it appears expenditures were adequately supported, recorded correctly, authorized, and made in accordance with applicable regulations or requirements. Payments were made timely, and travel payments and contracts were made in accordance with regulations and requirements. We had no findings related to expenditures; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

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## **PAYROLL AND PERSONNEL**

The objectives of our review of the payroll and personnel controls and procedures were to determine whether

- payroll and personnel functions were adequately segregated;
- payroll disbursements (wages, salaries, and benefits) were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;

- payroll was recorded correctly;
- performance evaluations were completed in compliance with personnel policies and procedures; and
- temporary employees who are retirees of the Tennessee Consolidated Retirement System (TCRS) worked more than the maximum hours allowable.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over payroll and personnel. We reviewed supporting documentation and tested nonstatistical samples of payroll and personnel transactions.

Based on interviews, review of supporting documentation, and testwork, it appears that payroll and personnel functions were adequately segregated, payroll disbursements were made only for work authorized and performed, payroll was computed properly and recorded correctly, and temporary employees who are retirees of TCRS did not work more than the maximum hours allowable. We had no findings related to payroll and personnel; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

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## **DIVISION OF CHARITABLE SOLICITATIONS**

The objectives of our review of the Division of Charitable Solicitations controls and procedures were to determine whether

- registration statements of charitable solicitors contained the proper information;
- registration renewals of charitable solicitors were filed in a timely manner;
- fees had been charged and recorded at the correct amount;
- policies, procedures, and operations of the compliance review section were in accordance with applicable laws and regulations; and
- procedures had been implemented to ensure that potential conflicts of interest are identified and disclosed.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over charitable solicitations. We reviewed supporting documentation and tested a sample of charitable solicitors. Policies and procedures were reviewed to determine if the compliance review section was in accordance with applicable laws and regulations and if procedures had been implemented to ensure that potential conflicts of interest were identified and disclosed.

Based on our testwork, it appears that charitable solicitors' registration statements contained proper information, registration renewals were filed in a timely manner, and fees were charged and recorded at the correct amount. Also, policies and procedures of the compliance review section were in accordance with applicable laws and regulations, and procedures have been implemented to ensure that potential conflicts of interest are identified and disclosed. We had no findings related to charitable solicitations; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

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## **REGIONAL LIBRARY SYSTEM**

We reviewed Clinch-Powell, Fort Loudon, Reelfoot, and Warioto Regional Libraries. Our objectives were to review management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, and payroll and personnel.

We interviewed key personnel to gain an understanding of each library's procedures and controls, reviewed supporting documentation, and tested nonstatistical samples of revenue, expenditures, equipment, and payroll and personnel items. We had no findings related to these areas; however, other minor weaknesses came to our attention and have been reported to management in a separate letter.

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## **FINANCIAL INTEGRITY ACT**

The Financial Integrity Act of 1983 requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

The objectives of our review of the Department of State's compliance with the Financial Integrity Act were to determine whether

- the department's June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report were filed in compliance with the Financial Integrity Act of 1983;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;

- procedures used in compiling information for the internal accounting and administrative control report were adequate; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures and the June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letter and internal accounting and administrative control report were submitted on time, and support for the internal accounting and administrative control report was adequate.

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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;
- the department made drawdowns at least weekly using the applicable STARS reports; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Federal Financial Assistance 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. The Grant Control Table and supporting documentation were reviewed.

Based on interviews and reviews, we determined that the department was in compliance with Policy 20. The department utilized the STARS Grant Module to record the receipt and expenditure of all federal funds and made drawdowns timely using the applicable STARS reports.

The department also used the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards.

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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 State filed its report with the Department of Audit on July 30, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

### **RESOLVED AUDIT FINDING**

The current audit disclosed that the Department of State has corrected the previous audit finding concerning inadequate segregation of duties between the fiscal and personnel offices.

### **REPEATED AUDIT FINDING**

The prior audit report also contained a finding concerning inadequate cash-receipting procedures for the Corporate Management System. This finding has not been resolved and is repeated in the applicable section of this report.

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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. The Department of State filed its compliance reports and implementation plans on June 30, 1999, and June 30, 1998.

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 notified all cabinet officers and agency heads that the Human Rights Commission is the 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.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

305.01	Secretary of State
305.02	State Election Commission
305.03	Public Documents
305.04	State Library and Archives
305.05	Regional Libraries
305.06	Library Construction Grants
305.07	Registry of Election Finance