

Department of Tourist Development

**For the Years Ended
June 30, 2000, and June 30, 1999**

Arthur A. Hayes, Jr., CPA, JD, CFE

Director

Charles K. Bridges, CPA

Assistant Director

Teresa L. Hensley, CPA

Audit Manager

Mary C. Cole, CPA

In-Charge Auditor

Keith L. Isbell

Lana L. Fishback

Staff Auditors

Amy Brack

Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

July 19, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable John A. Wade, Commissioner
Department of Tourist Development
320 Sixth Avenue North
Fifth Floor, Rachel Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Tourist Development for the years ended June 30, 2000, and June 30, 1999.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/snb
01/065



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

July 19, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Tourist Development for the years ended June 30, 2000, and June 30, 1999.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. 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 Tourist Development's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Tourist Development 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 Tourist Development's management in a separate letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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

AAH/snb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Tourist Development
For the Years Ended June 30, 2000, and June 30, 1999

AUDIT SCOPE

We have audited the Department of Tourist Development for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, equipment, grants and contracts, payroll and personnel, revenue, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDING

Lack of Compliance With the Financial Integrity Act

The department failed to include all required information in its June 30 responsibility letters. Furthermore, the department did not maintain supporting documentation for its internal accounting and administrative control evaluation. The department's report on its evaluation was not received by the Department of Finance and Administration and the Comptroller of the Treasury as required by law.

"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 Tourist Development
For the Years Ended June 30, 2000, and June 30, 1999

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Department of Tourist Development

For the Years Ended June 30, 2000, and June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Tourist Development. 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.

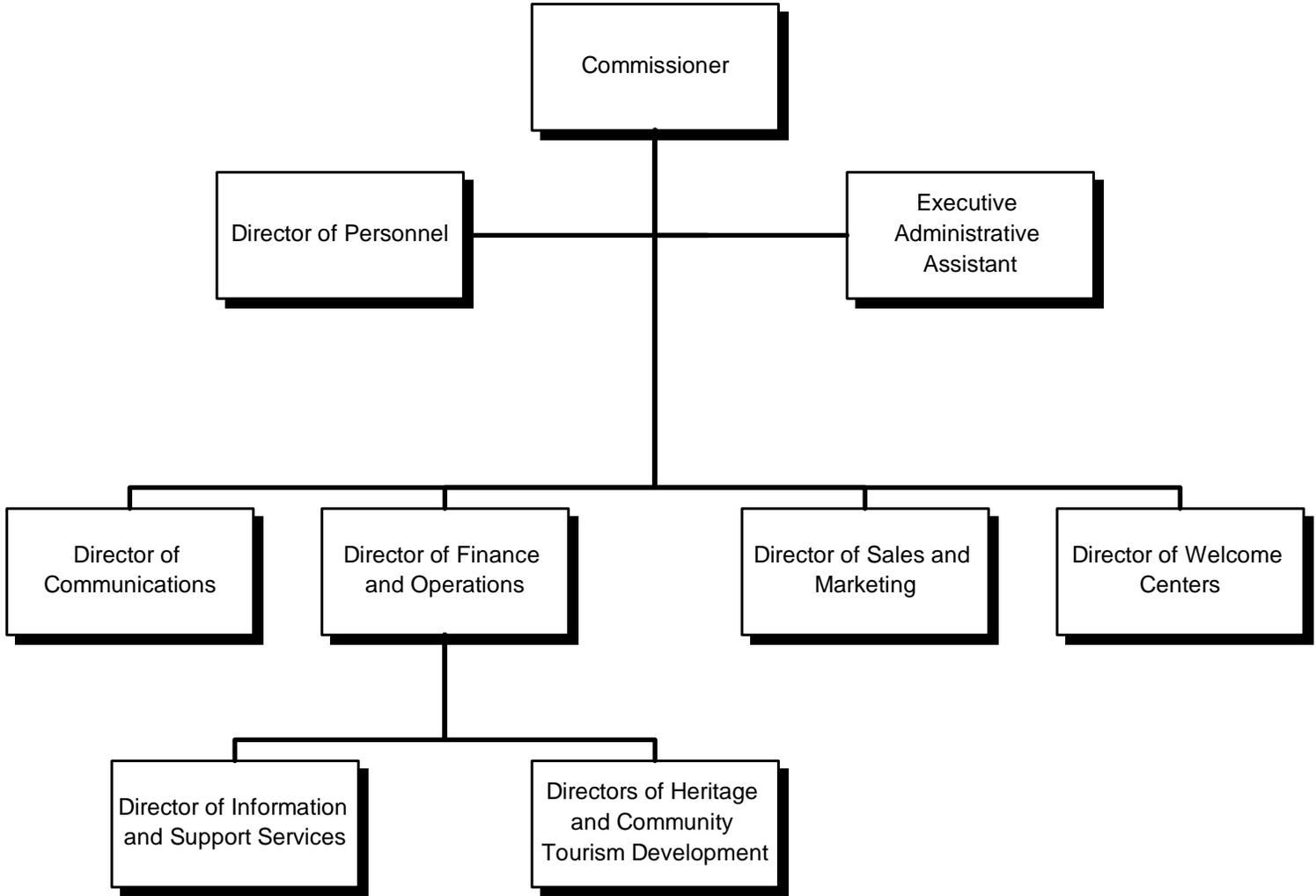
BACKGROUND

The mission of the Department of Tourist Development is to promote tourism in Tennessee through various services and marketing programs and to bring steady economic growth to the tourism industry in Tennessee. In order to fulfill this mission, the department has five divisions that work to promote tourism: Sales and Marketing, Communications, Heritage and Community Tourism Development, Information and Support Services, and Welcome Centers.

The Sales and Marketing Division and the Communications Division work to promote Tennessee tourism through advertising in national print and media, participating in travel and vacation shows each year, developing marketing programs, and producing travel articles and other promotional literature about Tennessee. The Heritage and Community Tourism Development Division works with communities throughout the state to create heritage trails, tours, and other attractions to increase Tennessee’s appeal. The Information and Support Services Division responds to more than 500,000 requests for travel information each year. Finally, the Welcome Centers Division operates 13 Welcome Centers that act as contact points for people entering Tennessee and provide information on the state’s attractions, lodging, and other travel-related facilities. The Welcome Centers are open 24 hours a day throughout the year.

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

Department of Tourist Development
Organization Chart



AUDIT SCOPE

We have audited the Department of Tourist Development for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, equipment, grants and contracts, payroll and personnel, revenue, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDING

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. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the Department of Tourist Development has corrected the previous audit finding concerning accountability for equipment.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

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

- expenditures for goods or services were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements;
- contracts were made in accordance with applicable regulations, and contract payments complied with contract terms and purchasing guidelines;
- segregation of duties for fiscal employees with State of Tennessee Accounting and Reporting System (STARS) access was proper;

- voucher registers were properly approved;
- reports received from the Department of Finance and Administration (F&A) were reconciled with voucher registers;
- unclassified expenditures were proper; and
- payments were made in a timely manner.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over recording and reconciling expenditure transactions. We reviewed supporting documentation and tested a nonstatistical sample for compliance with requirements for expenditure transactions and contract payments. We reviewed STARS access to determine proper segregation of duties. We also reviewed voucher registers for approval, reconciliations of voucher registers with F&A reports, and unclassified expenditures.

Based on our testwork, we determined that expenditures were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements. Payments for expenditures were made timely. Contracts were made in accordance with applicable regulations, and contract payments complied with contract terms and purchasing guidelines. Duties for fiscal employees with STARS access were adequately segregated. Voucher registers were properly approved and were reconciled with F&A reports. Also, unclassified expenditures were proper. We had no findings related to expenditures.

EQUIPMENT

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

- segregation was adequate for Property of the State of Tennessee (POST) and related STARS access;
- equipment purchases during the audit period were properly supported, could be physically located or confirmed, and were added to POST at the appropriate cost;
- equipment on the POST inventory listing could be physically located or confirmed and whether the description, tag number, serial number, and location in POST were correct;
- office items traced to the POST inventory listing with agreement of pertinent data;
- physical security over equipment items was adequate; and

- procedures for lost or stolen equipment were followed, including informing the Comptroller's Office and deleting the equipment from the property listing.

We reviewed POST and related STARS access for proper segregation of duties. We interviewed key personnel to gain an understanding of the department's procedures and controls for safeguarding and accounting for equipment. We also reviewed supporting documentation for these procedures and controls. In addition, three nonstatistical samples of equipment items were tested, and physical security over equipment items was assessed. A nonstatistical sample of equipment items reported as lost or stolen was tested to determine if proper procedures were followed.

Based on our testwork, segregation of duties in POST and STARS appeared proper. Equipment purchases during the audit period were properly supported, physically located or confirmed, and added to POST at the appropriate cost. Equipment in POST was physically located or confirmed, and the description, tag number, serial number, and location in POST were correct. Equipment items in the office traced to the POST inventory listing for pertinent data with some minor exceptions. Also, physical security over equipment items was adequate. We determined that the department's procedures for lost or stolen equipment were followed. Although we had no findings related to equipment, minor weaknesses were reported to management in a separate letter.

GRANTS AND CONTRACTS

The objectives of our review of grants and contracts were to determine whether

- grant agreements were properly approved and grant guidelines were followed;
- audit reports required by the grant agreement were received by the department;
- grant expenditures were made in accordance with grant guidelines and for the purpose of the grant;
- grant expenditures did not exceed authorized amounts;
- the grantee's matching portion was in compliance with the grant agreement; and
- professional services contracts were approved before the effective date of the contract and expenditures were not incurred before approval was obtained.

We interviewed key personnel and examined supporting documentation to gain an understanding of the department's procedures and controls over grants. All grants were tested to determine whether grant guidelines were followed. In addition, all personal service contracts were tested to determine whether the contract was properly approved and whether expenditures were incurred before approval was obtained.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that grant agreements had been properly approved and grant guidelines had been followed with some minor exceptions, the department had received the required audit reports from the grantee, grant expenditures had been made in accordance with grant guidelines and for the purpose of the grant, grant expenditures did not exceed authorized amounts, and the grantee's matching portion was in compliance with the grant agreement. Also, contracts had been approved before the effective date of the contract, and expenditures were not incurred before approval was obtained. Although we had no findings related to grants and contracts, minor weaknesses were reported to management in a separate letter.

PAYROLL AND PERSONNEL

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

- segregation was adequate for State Employee Information System (SEIS) access and related STARS access;
- gross pay agreed with personnel records, deductions were properly authorized, net pay was properly calculated, timesheets were signed by the employee and approved by the supervisor, and leave was taken in accordance with Department of Personnel guidelines;
- employees hired during the audit period met the qualifications for the jobs held;
- initial wage and amount paid were properly calculated for employees hired during the audit period and whether civil service employees hired during the audit period were selected from the appropriate lists;
- final pay was properly calculated for recently terminated employees and that these individuals did not appear on the succeeding payroll register;
- supplemental payroll registers were reasonable; and
- performance evaluations were completed as required.

We interviewed key personnel to gain an understanding of the department's procedures and controls over payroll and personnel. We reviewed SEIS and related STARS access for adequate segregation. A nonstatistical sample of payroll transactions was tested to determine whether payroll disbursements were authorized, adequately supported, and properly calculated, and whether the employee had received a performance evaluation in the last year. We also examined supplemental payroll registers for reasonableness.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that segregation of duties was adequate, gross pay agreed with personnel records, deductions were properly authorized with a few minor exceptions, net pay was properly calculated, timesheets were signed by the employee and approved by the supervisor, and leave was taken in accordance with Department of Personnel guidelines. Newly hired employees met the qualifications for the jobs held. Initial wages of newly hired employees and final wages of recently terminated employees were properly calculated. Newly hired civil service employees were selected from the appropriate lists. Terminated individuals did not appear on the succeeding payroll register. Also, supplemental payroll registers appeared reasonable. We determined that performance evaluations were not always performed timely. Although we had no findings related to payroll and personnel, minor weaknesses were reported to management in a separate letter.

REVENUE

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

- controls over revenue were adequate;
- the department reconciled its records with the revenue reports issued by the Department of Finance and Administration (F&A);
- revenue was properly recorded;
- prenumbered receipts were issued in sequence for all monies received and copies of voided receipts were retained;
- receipts were deposited within the time prescribed by F&A Policy 25 and the bank code appeared valid; and
- certifications of deposit and receipts agreed.

We interviewed key personnel to gain an understanding of the department's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. We examined the reconciliation of the department's records with the revenue reports issued by F&A. We also tested a nonstatistical sample of prenumbered receipts.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that procedures and controls over revenue appeared adequate. Reconciliations of the department's records with revenue reports issued by F&A were performed, and revenue was properly recorded. Prenumbered receipts were issued in sequence, and copies of voided receipts were retained. Certifications of deposit agreed with receipts. Our testwork revealed that the department has not fully complied with F&A Policy 25 regarding timeliness of deposits.

Although we had no findings related to revenue, minor weaknesses were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, 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.

Our objectives were to determine whether

- the department's June 30, 2000, and June 30, 1999, responsibility letters and December 31, 1999, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- 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 in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 2000, and June 30, 1999, responsibility letters and the December 31, 1999, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letters were submitted on time. However, the internal accounting and administrative control report was never received by either the Comptroller of the Treasury or the Department of Finance and Administration. Also, the department did not have any documentation to support its evaluation of internal accounting and administrative control. Corrective action was being taken on the weaknesses noted. See finding below.

Finding

The department did not comply with the Financial Integrity Act

Section 9-18-104, *Tennessee Code Annotated*, 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 (F&A) 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. In December 1998, F&A issued *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*.

Although the department prepared responsibility letters for June 2000 and 1999, the letters did not contain all the information required by F&A's guidelines. The letters lacked the following acknowledgement by the Commissioner: "As head of this agency I acknowledge that the department's internal controls . . . adequately safeguard assets, and when taken as a whole provide reasonable assurance of the proper recording of financial transactions, compliance with applicable laws and regulations, and the achievement of operational objectives." The letters also lacked the paragraph stating that the department has throughout the year conveyed any additional significant weaknesses in operations or financial controls to F&A as they were identified.

Management provided the auditors a copy of the internal accounting and administrative control report dated in December 1999. However, this report was never received by the Department of Finance and Administration or the Comptroller of the Treasury. Also, the department did not maintain documentation to support its internal accounting and administrative control evaluation. In the report, there is no statement that the department has throughout the year conveyed any additional significant weaknesses in operations or financial controls to F&A as they were identified.

Recommendation

Management should comply with all requirements of the Financial Integrity Act. An evaluation of the department's internal accounting and administrative controls should be performed in accordance with the *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*, and the department should maintain documentation of its evaluation. The department should submit the required letters and reports to the Comptroller of the Treasury and the Department of Finance and Administration by the submission deadlines.

Management's Comment

We concur. The department will comply with all requirements of the Financial Integrity Act. The department will insure that proper acknowledgements are included in responsibility letters, maintain documentation to support its internal accounting and administrative control evaluation, and provide appropriate distribution as required by Finance and Administration's guidelines and the *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*.

APPENDIX

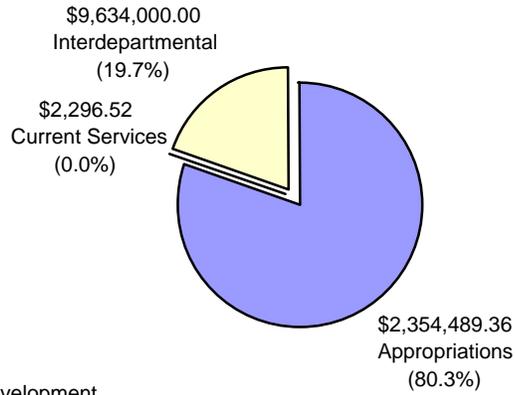
Department of Tourist Development allotment codes:

326.01 Administration and Marketing

326.03 Welcome Centers

Department of Tourist Development Funding Sources

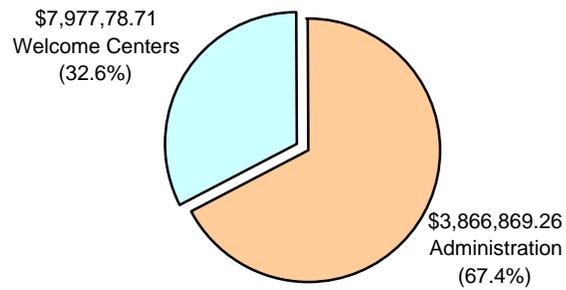
Fiscal Year Ended June 30, 2000 (Unaudited)



Source: Department of Tourist Development

Expenditures by Allotment and Division

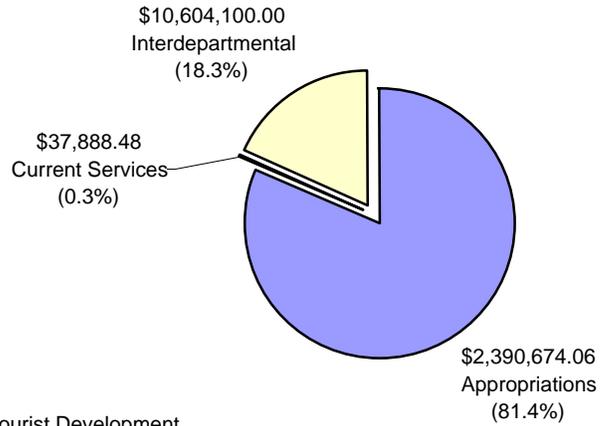
Fiscal Year Ended June 30, 2000 (Unaudited)



Source: Department of Tourist Development

Department of Tourist Development Funding Sources

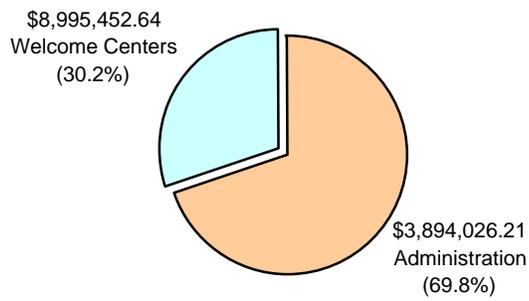
Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Tourist Development

Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Tourist Development