

**Tennessee Rehabilitative Initiative in Correction**

**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

***Elizabeth M. Birchett, CPA***  
Audit Manager

***Christopher Risher***  
In-Charge Auditor

***Ronald Crozier***  
***Temecha Jones***  
***Kelly Scott***  
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

September 18, 2001

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Ms. Patricia Weiland, Executive Director  
240 Great Circle Road, Suite 310  
Nashville, Tennessee 37228-1734

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Rehabilitative Initiative in Correction 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/mc  
01/094



**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**

September 18, 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 Tennessee Rehabilitative Initiative in Correction 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 Tennessee Rehabilitative Initiative in Correction's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Rehabilitative Initiative in Correction 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 Tennessee Rehabilitative Initiative in Correction'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

AAH/mc

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Rehabilitative Initiative in Correction**  
For the Years Ended June 30, 2000, and June 30, 1999

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## AUDIT SCOPE

We have audited the Tennessee Rehabilitative Initiative in Correction 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 equipment, finished goods inventory, facility visits, quarterly profit and loss statements, cost allocation system, disaster recovery system, 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

### **Agency Did Not Comply With the Financial Integrity Act**

The report on the internal accounting and administrative control was received late, and supporting documentation of management's evaluation could not be provided (page 8).

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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**  
**Tennessee Rehabilitative Initiative in Correction**  
**For the Years Ended June 30, 2000, and June 30, 1999**

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# **Tennessee Rehabilitative Initiative in Correction For the Years Ended June 30, 2000, and 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 Tennessee Rehabilitative Initiative in Correction. 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 Tennessee Rehabilitative Initiative in Correction (TRICOR) is to effectively manage correctional industry, agriculture, and service operations for the purpose of employing and training inmates, providing quality products and services on time to customers, and assisting in post-release employment, all of which reduce the cost of government in Tennessee. TRICOR fulfills its mission through the oversight of work-based rehabilitation programs in Tennessee’s adult correctional institutions. TRICOR is revenue-funded by providing state and local government and nonprofit agencies with products and services produced by inmate workers. TRICOR is governed by a board of directors whose members are appointed by the Governor. Effective July 1, 1999, TRICOR was separated from the Department of Correction by the Public Acts of 1999.

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

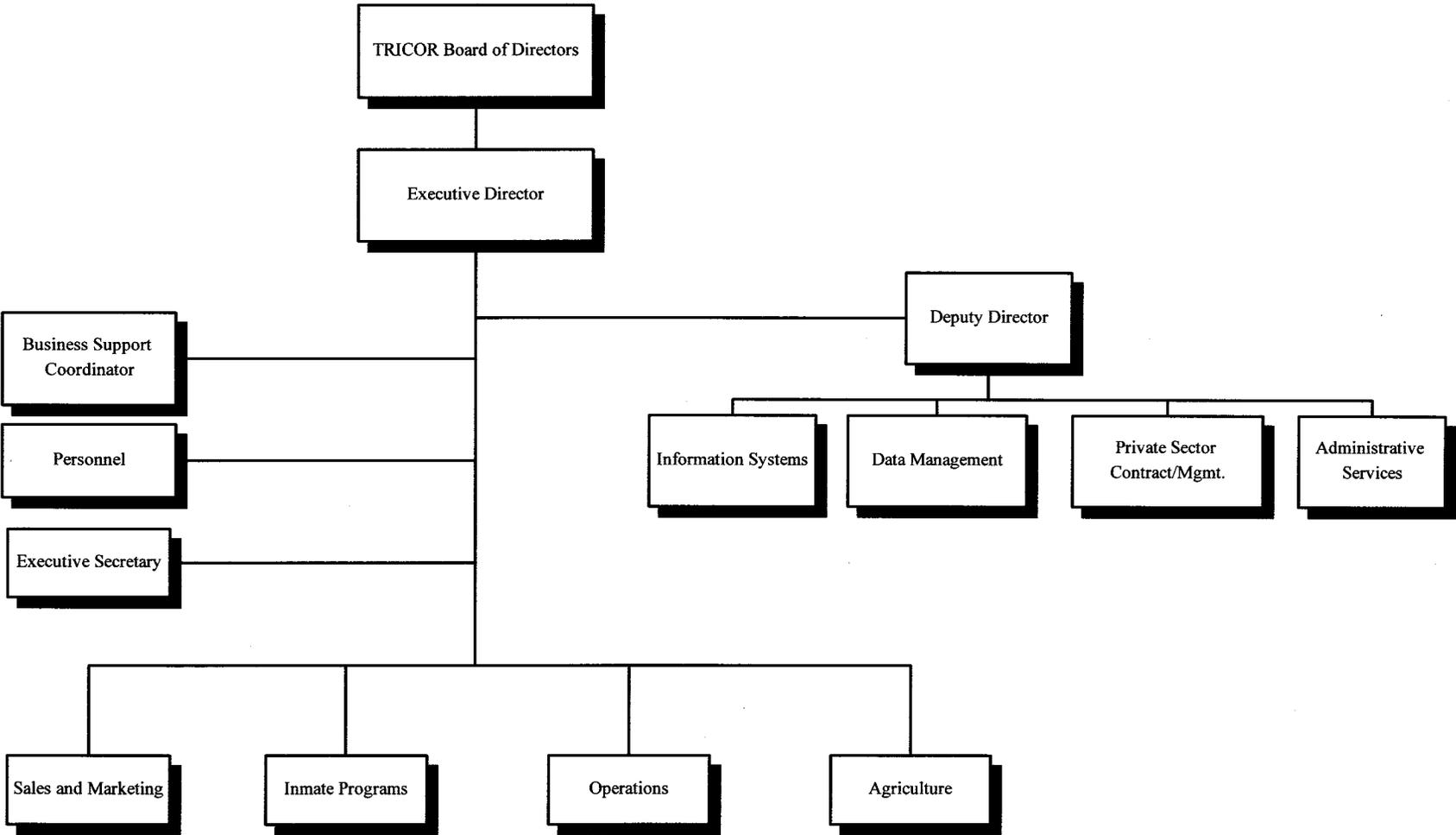
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## **AUDIT SCOPE**

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We have audited the Tennessee Rehabilitative Initiative in Correction 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 equipment, finished goods inventory, facility visits, quarterly profit and loss statements, the cost allocation system, the disaster recovery

# Tennessee Rehabilitative Initiative in Correction (TRICOR)



system, 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.

Effective July 1, 1999, the Tennessee Rehabilitative Initiative in Correction is accounted for in allotment code 316.08. Prior to that, the Tennessee Rehabilitative Initiative in Correction was accounted for in allotment code 329.30.

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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. Audit findings 1 through 5 in the audit of the Department of Correction for the years ended June 30, 1998, and June 30, 1997, related to the Tennessee Rehabilitative Initiative in Correction. The agency filed its report on these findings with the Department of Audit on October 30, 2000. A follow-up of these prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Tennessee Rehabilitative Initiative in Correction has corrected previous audit findings concerning the submission of quarterly profit and loss statements, lack of a disaster recovery plan, inadequate controls over finished goods inventories, and inappropriate activities at Cold Creek Correctional Facility farm. The previous audit finding concerning the need for a functional cost accounting system has been addressed by the agency, and improvements have been made. Although the finding will not be repeated in this report, the auditors will review this area again in the next audit.

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

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### **EQUIPMENT**

Our objectives for reviewing equipment controls and procedures were to determine whether

- policies and procedures regarding equipment were adequate,
- property and equipment were adequately safeguarded, and

- equipment information is properly recorded in the Property of the State of Tennessee listing (POST).

We interviewed key agency personnel and reviewed supporting documentation to gain an understanding of the agency's procedures and controls over equipment. We selected a nonstatistical sample of equipment from POST to determine whether the equipment information was properly recorded. Equipment information included state tag number, description, location, and serial number. For the equipment located at TRICOR's Central Office, equipment information was physically observed, while all other equipment sample item information was confirmed by letter.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding equipment were adequate and property and equipment were adequately safeguarded. Based on our testwork, we determined that equipment information was properly recorded in POST. Although we had no findings related to equipment, a minor weakness was reported to management in a separate letter.

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## **FINISHED GOODS INVENTORY**

Our objectives for reviewing finished goods inventory controls and procedures were

- to follow up a prior audit finding concerning the controls over finished goods inventories,
- to determine whether policies and procedures regarding finished goods were adequate, and
- to determine whether the finished goods inventory records represent a complete and accurate listing of the goods physically on hand.

We interviewed key agency personnel and reviewed supporting documentation to gain an understanding of the agency's policies and procedures over finished goods. We selected a nonstatistical sample of finished goods from the agency's inventory of finished goods and located each item to determine whether the finished goods inventory records were a complete and accurate listing of the goods physically on hand. We also selected an additional nonstatistical sample of actual finished goods and traced them to the finished goods inventory records to determine whether the finished goods inventory records were a complete and accurate listing of the goods physically on hand. Finished goods inventory record information included quantity, description, product identification number, and location. We performed these procedures at both of the finished goods warehouses.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding finished goods were adequate. Based on our testwork, we determined that the finished goods inventory records represent a complete and accurate listing of the goods physically

on hand. Although we had no findings related to finished goods inventory, minor weaknesses were reported to management in a separate letter.

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## **FACILITY VISITS**

Our objectives for reviewing the controls and procedures over the production facilities were to determine whether

- policies and procedures regarding the production facilities were adequate,
- the raw materials inventory records represented a complete and accurate listing of raw materials on hand, and
- the agricultural products inventory records represented a complete and accurate listing of agricultural products on hand.

We interviewed key agency personnel and reviewed supporting documentation to gain an understanding of the agency's policies and procedures over the production facilities. We selected a nonstatistical sample of raw materials and agricultural products from the agency's inventory records of raw materials and agricultural products and located each item to determine whether the inventory records represented a complete and accurate listing of raw materials and agricultural products on hand. We also selected an additional nonstatistical sample of raw materials and agricultural products and traced them to the respective inventory records to determine whether the inventory records represented a complete and accurate listing of items on hand. Raw materials and agricultural product inventory record information included quantity, description, and location. We performed these procedures at the Turney Center Industrial Prison and Farm and Southeast Tennessee State Regional Correctional Institution.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding the production facilities were adequate. Based on our testwork, we determined that the raw materials and agricultural products inventory records represented a complete and accurate listing of the raw materials and agricultural products on hand.

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## **QUARTERLY PROFIT AND LOSS STATEMENTS**

Our objectives for reviewing quarterly profit and loss statements controls and procedures were

- to follow up a prior audit finding concerning the timely submission of quarterly profit and loss statements;

- to determine whether policies and procedures regarding the quarterly profit and loss statements were adequate;
- to determine whether the quarterly profit and loss statements were submitted in accordance with Section 41-22-123 (b), *Tennessee Code Annotated*; and
- to determine whether there was adequate supporting documentation for the quarterly profit and loss statements.

We interviewed key agency personnel and reviewed supporting documentation to gain an understanding of the agency's policies and procedures over quarterly profit and loss statements. We tested all eight quarterly statements for the audit period for timely submission to the Comptroller of the Treasury and Commissioner of the Department of Finance and Administration and certification by the Fiscal Officer, to determine whether the statements were submitted in accordance with Section 41-22-123 (b), *Tennessee Code Annotated*. We traced the quarterly profit and loss statement for the quarter ended June 30, 2000, to supporting documentation.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding quarterly profit and loss statements were adequate. Based on our testwork, we determined that the quarterly statements were submitted in accordance with Section 41-22-123 (b), *Tennessee Code Annotated*, and there was adequate supporting documentation for the quarterly profit and loss statements. Although we had no findings related to quarterly profit and loss statements, a minor weakness was reported to management in a separate letter.

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## **COST ALLOCATION SYSTEM**

Our objectives for reviewing cost allocation system controls and procedures were

- to follow up the prior audit finding concerning the lack of a functional cost accounting system;
- to determine whether policies and procedures regarding the cost allocation system were adequate; and
- to determine whether the cost accounting system would generate appropriate reports for management and value raw materials, work-in-process, and finished goods inventory at cost.

We interviewed key agency personnel and reviewed supporting documentation to follow up the prior audit finding, gain an understanding of the agency's policies and procedures over the cost allocation system, and determine whether the cost accounting system would generate appropriate reports for management and value raw materials, work-in-process, and finished goods inventory at cost.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding the cost allocation system were adequate and that once fully functional the cost accounting system would generate appropriate reports for management and value raw materials, work-in-process, and finished goods inventory at cost. Although we had no findings related to the cost allocation system, a minor weakness was reported to management in a separate letter. We will review this area again in the next audit to determine that the system is fully functional and operating as intended.

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## **DISASTER RECOVERY SYSTEM**

Our objectives for reviewing disaster recovery system controls and procedures were

- to follow up the prior audit finding concerning the lack of a disaster recovery system,
- to determine whether the agency has a disaster recovery system, and
- to determine whether the policies and procedures concerning the disaster recovery system are adequate.

We interviewed key agency personnel and reviewed supporting documentation to determine whether the agency has a disaster recovery system and gain an understanding of the agency's policies and procedures over the disaster recovery system.

Based on our interviews and reviews of supporting documentation, we determined that the agency has a disaster recovery system and policies and procedures regarding the disaster recovery system were adequate.

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## **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 agency'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 agency's evaluation of its internal accounting and administrative control was properly maintained; and
- 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*.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the agency's procedures. We reviewed the June 30, 2000, and June 30, 1999, responsibility letters and the December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to submission deadlines.

We determined that although the Financial Integrity Act responsibility letters were submitted on time, the internal accounting and administrative control report was not submitted on time, and support for the internal accounting and administrative control report was not properly maintained. Also, it could not be determined whether the procedures used were in compliance with *Tennessee Code Annotated*.

### **The agency did not comply with the Financial Integrity Act**

#### **Finding**

Tennessee Rehabilitative Initiative in Correction (TRICOR) was not in compliance with Section 9-18-104 (b)(1), *Tennessee Code Annotated*, concerning the Financial Integrity Act. The agency's report on the internal accounting and administrative control, due on December 31, 1999, was received by the Comptroller of the Treasury on May 1, 2000. In addition, although the report did not identify any weaknesses in internal control, documentation supporting the evaluation conducted was not available specifying the work performed or supporting the conclusions reached. Furthermore, the auditor could not determine if the evaluation was conducted in accordance with the prescribed guidelines. Section 9-18-104 (b)(1), *Tennessee Code Annotated*, states,

By December 31, 1999, and December 31 of every fourth year thereafter, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under Section 9-18-103, prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report which states that (A) the agency's systems of internal accounting and administrative control fully comply with the requirements specified in this chapter; or (B) the agency's

systems of internal accounting and administrative control do not fully comply with such requirements.

### **Recommendation**

Management should ensure that supporting documentation for the evaluation of the internal accounting and administrative controls is maintained and the report is submitted in accordance with Section 9-18-104 (b)(1), *Tennessee Code Annotated*.

### **Management's Comment**

We concur. TRICOR management will ensure that the report is submitted timely and that supporting documentation of the evaluation is maintained in accordance with *Tennessee Code Annotated*.