

Office of the Comptroller of the Treasury

**For the Year Ended
June 30, 2001**

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Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.

For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



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December 27, 2001

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, 2001.

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. The consideration of the internal control structure and tests of compliance disclosed no major deficiencies.

Sincerely,

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

AAH/dds
01/124

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, 2001

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, interdepartmental contracts, property tax relief, and information systems.

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

AUDIT FINDINGS

The audit report contains no findings.

"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, 2001

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Office of the Comptroller of the Treasury For the Year Ended June 30, 2001

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 account-ability 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.

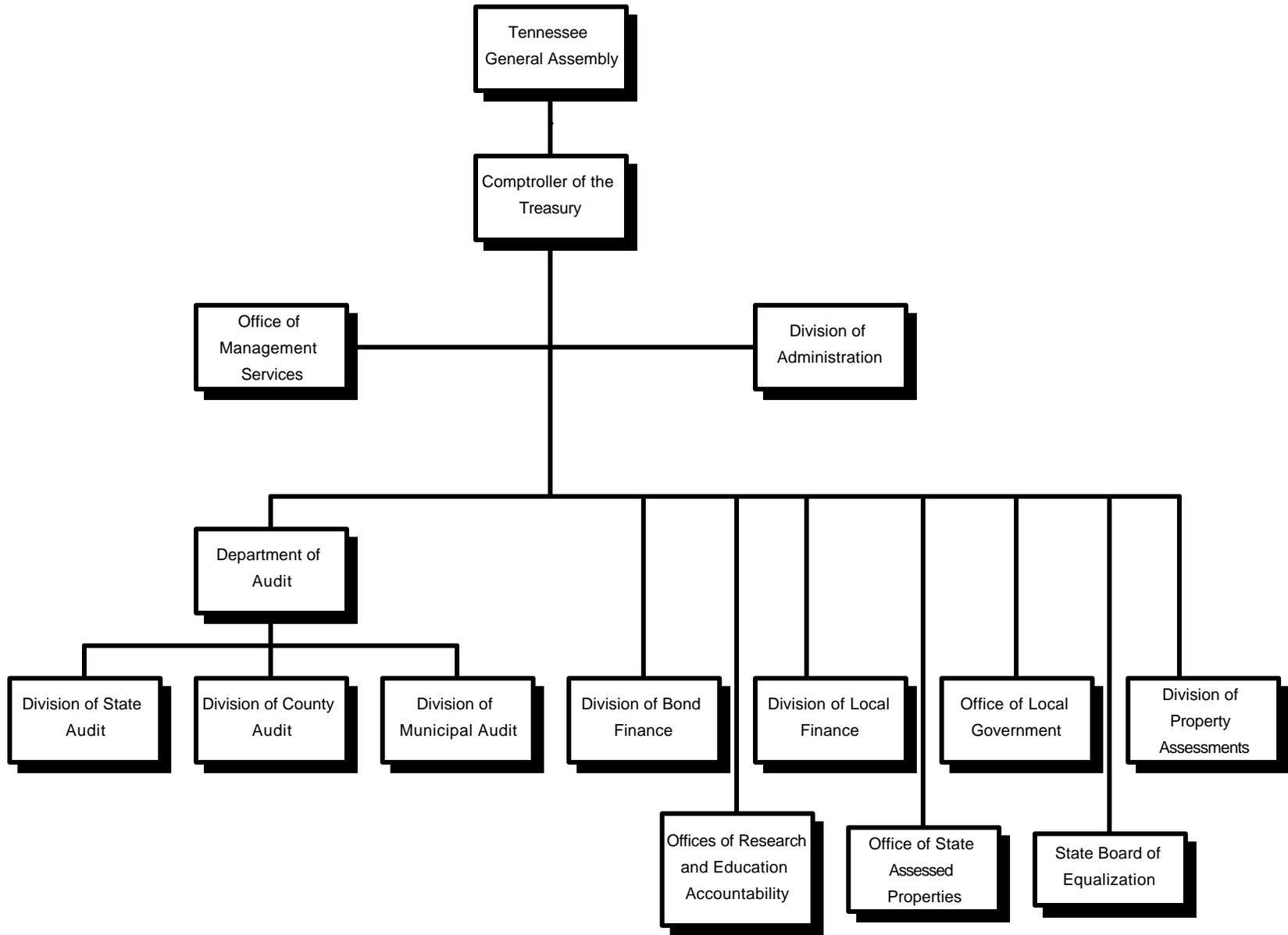
The Tax Relief Program provides funds for refunding property taxes to qualified taxpayers, in accordance with Section 67-5-701, *Tennessee Code Annotated*.

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, interdepartmental contracts, property tax relief, and information systems.

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

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. The Comptroller of the Treasury filed its report with the Department of Audit on July 23, 2001. 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 compliance with interdepartmental contract provisions.

OBJECTIVES, METHODOLOGIES, AND RESULTS

REVENUE

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

- physical controls over cash were adequate;
- 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.

We had no findings related to revenue.

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 May 31, 2001. 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.

We had no findings related to accounts receivable.

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;
- contracts were made in accordance with regulations and were in compliance with applicable terms and guidelines;
- 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.

We had no findings related to expenditures.

EQUIPMENT

Our 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.

We had no findings related to equipment.

INTERDEPARTMENTAL CONTRACTS

Our review of an interdepartmental contract between the Bureau of TennCare 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 an amendment to the state plan deleted the requirement for independent CPA audits of nursing home cost reports and requires audits as determined reasonable and necessary. Therefore, the office complied with the provisions of the interdepartmental contract.

PROPERTY TAX RELIEF

Our objectives in reviewing the property tax relief program were to determine whether

- property tax relief payments were made to eligible individuals;
- property tax relief payments made to ineligible individuals were collected; and
- controls over the property tax relief process were adequate.

Key personnel were interviewed to gain an understanding of the office's procedures for and controls over state assessed properties. 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 sample of tax relief payments to verify that the proper documentation was on file to show the recipient's eligibility for the payments. In addition, we tested returned warrants and cancelled warrants to determine propriety of cancellations.

Based on our interviews, observations, and review of supporting documentation, it appears that the office's internal controls were in place. Based on testwork, tax relief payments appear to have been made to eligible individuals, and returned and cancelled warrants appear to be supported.

We had no findings related to property tax relief.

INFORMATION SYSTEMS

Our objectives in reviewing the information systems were to determine whether

- IS provides a clear assignment of responsibilities and segregation of functions;
- relevant policies and procedures have been placed in operation;
- computer resources are planned, managed, and utilized effectively;
- an adequate system recovery plan has been implemented and kept up to date;
- computer files are properly safeguarded;
- security policies are in place and function adequately;
- a password policy is in place and appropriate;
- computer resources are adequately protected;
- users are properly authorized for access to system resources; and
- program documentation is adequate.

We interviewed key personnel to gain an understanding of the office's general controls environment. We reviewed organization charts to determine if clear assignments of responsibilities and segregation of functions were in place. We examined the policies and procedures manuals, interviewed personnel, and observed daily activity to determine if policies and procedures were current and reflected existing operational conditions. We reviewed the agendas of the Management Advisory

Committee and reviewed the three-year plan to determine if computer resources are managed appropriately. We interviewed key personnel and reviewed the disaster recovery plan to determine that it had been implemented and was current. We reviewed Resource Access Control Facility (RACF) special access, dataset protection, and password lifetimes to determine if computer files are safeguarded, resources are protected, password policies are followed, and security policies are adequate and functioning properly. We tested a sample of users to determine if they were properly authorized for access to system resources. We reviewed program documentation to determine if it was adequate.

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

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:

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