

Tennessee Regulatory Authority

**For the Years Ended
June 30, 2001, and June 30, 2000**

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

Charles K. Bridges, CPA
Assistant Director

Debra D. Bloomingburg, CPA
Audit Manager

Teresa C. Gipson
In-Charge Auditor

Mike W. Cole, CFE
Jennifer B. Rhodes
Staff Auditors

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

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

**John G. Morgan
Comptroller**

April 2, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Regulatory Authority for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/023



**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) 401-7897
FAX (615) 532-2765**

February 7, 2002

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 Regulatory Authority for the years ended June 30, 2001, and June 30, 2000.

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 Regulatory Authority's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Regulatory Authority is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Tennessee Regulatory Authority's management in a separate letter.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Regulatory Authority
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Tennessee Regulatory Authority for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, 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 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
Tennessee Regulatory Authority
For the Years Ended June 30, 2001, and June 30, 2000

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Tennessee Regulatory Authority
For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Regulatory Authority. 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.

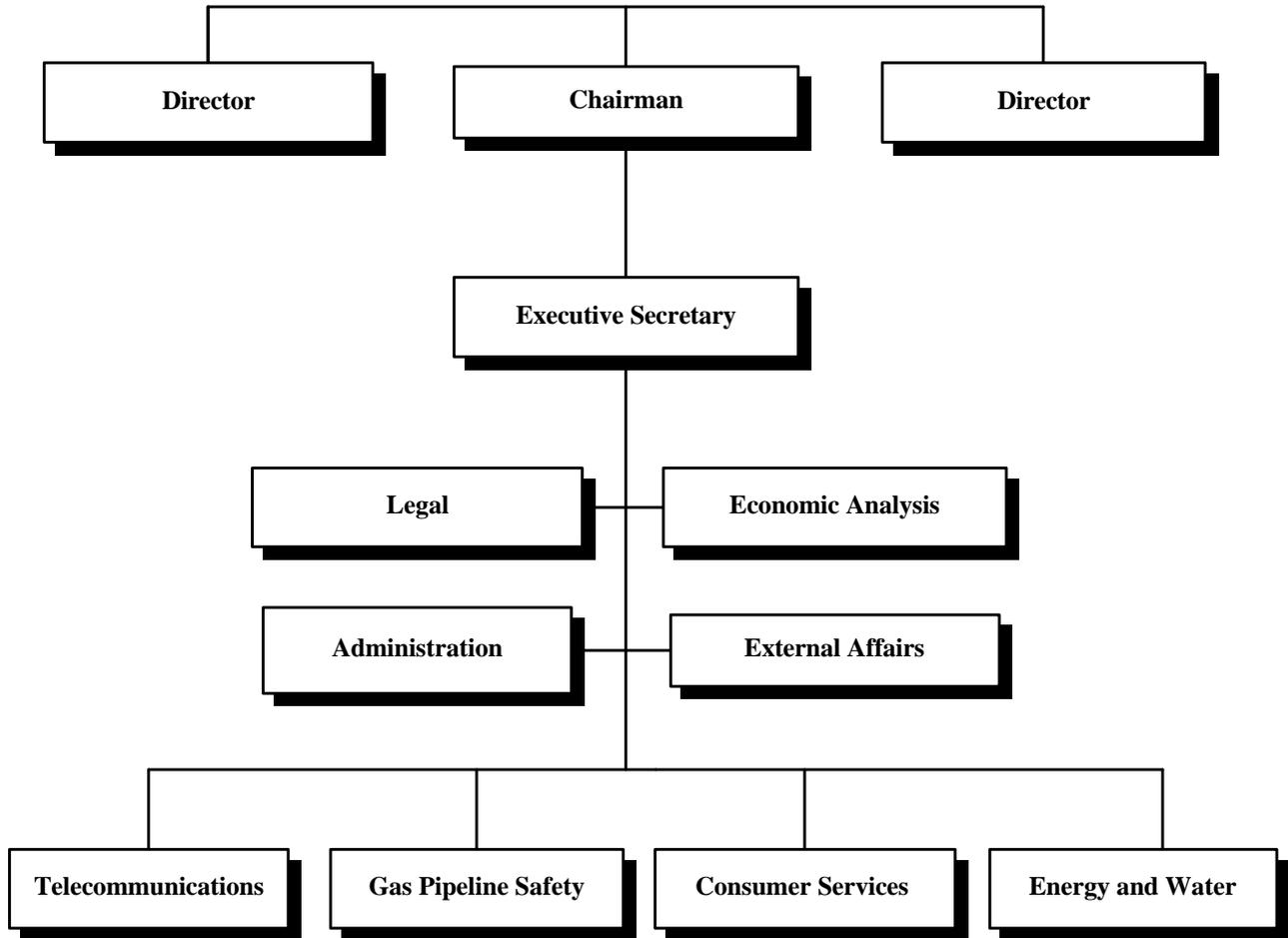
BACKGROUND

The Tennessee Regulatory Authority is governed by three directors. One is appointed by the Governor, one by the Speaker of the Senate, and one by the Speaker of the House of Representatives. Each director serves a six-year term. The authority has jurisdiction over public utilities including electric companies, telephone companies, water companies, and natural gas companies. This jurisdiction includes approving all rates; auditing the utilities’ compliance with applicable laws, orders, and policies of the authority; and inspecting natural gas pipelines. An organization chart of the authority is on the following page.

AUDIT SCOPE

We have audited the Tennessee Regulatory Authority for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, 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.

**TENNESSEE REGULATORY AUTHORITY
ORGANIZATION CHART**



PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUES

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

- transactions were recorded accurately in the accounting records and were properly documented,
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year,
- utility and gas safety inspection fees were properly calculated,
- receipts were issued for cash received, and
- financial records were reconciled with the State of Tennessee Accounting and Reporting System (STARS).

We interviewed key personnel to gain an understanding of the authority's procedures and controls over revenues. We selected nonstatistical samples to determine whether our objectives were met.

Based on our interviews of key personnel and testwork, we determined that transactions were recorded accurately in the accounting records and were properly documented, cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year, utility and gas safety inspection fees were properly calculated, receipts were issued for cash received, and financial records were reconciled with STARS.

EXPENDITURES

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

- expenditures were for goods or services received during the fiscal year;

- expenditures were properly recorded in STARS;
- expenditures were properly approved and in accordance with the budget and other regulations or requirements;
- expenditures were recorded for the correct allotment code, cost center, transaction code, object code, budget category, and amount;
- payments were made within 45 days of the receipt of the invoice;
- expenditures for travel were in accordance with regulations;
- contracts were made in accordance with regulations;
- contract payments complied with contract terms and purchasing guidelines;
- encumbered funds were liquidated for the same purpose as the original encumbrance; and
- access to STARS and the Tennessee On-Line Purchasing System (TOPS) was limited to those persons whose job duties required it.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over expenditures. We selected a nonstatistical sample to determine whether our objectives were met. In addition, we reviewed a listing of employees who had access to STARS and TOPS to determine whether the access was proper.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that expenditures were for goods or services received during the fiscal year; expenditures were properly recorded in STARS; expenditures were properly approved and in accordance with the budget and other regulations or requirements; expenditures were recorded for the correct allotment code, cost center, transaction code, object code, budget category and amount; payments were made within 45 days of the receipt of the invoice; expenditures for travel were in accordance with regulations; contracts were made in accordance with regulations; contract payments complied with contract terms and purchasing guidelines; and encumbered funds were liquidated for the same purpose as the original encumbrance. In addition, we determined that employees had proper access to STARS and TOPS.

EQUIPMENT

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

- property and equipment in the Property of the State of Tennessee (POST) system represented a complete and valid listing of the cost of assets purchased and physically on hand,
- property and equipment were adequately safeguarded,

- expenditures charged to object 099 and 16x have been added to POST, and
- the level of system access to POST is appropriate for the job duties.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over equipment. We also reviewed supporting documentation and selected nonstatistical samples of equipment transactions to determine whether our objectives were met. In addition, we reviewed a listing of employees who had access to POST to determine whether the access was proper.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that property and equipment in POST represented a complete and valid listing of the cost of assets purchased and physically on hand, property and equipment were adequately safeguarded, expenditures charged to object 099 and 16x have been added to POST, and the level of system access to POST was appropriate for the job duties. We had no findings related to equipment; however, one minor weakness came to our attention and was 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

- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;
- payroll was recorded correctly as to amount and period and was distributed properly to account, fund, and budget;
- performance evaluations were completed in the time period required;
- temporary employees who were retirees of the Tennessee Consolidated Retirement System were employed in compliance with Section 8-36-805, *Tennessee Code Annotated*; and
- access to the State Employee Information System (SEIS) was limited to those persons whose job duties required it.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over payroll and personnel. We also reviewed supporting documentation and selected a nonstatistical sample to determine whether our objectives were met. In addition, we reviewed a listing of employees who had access to SEIS to determine whether access was proper.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations; payroll was recorded correctly as to amount and period and

was distributed properly to account, fund, and budget; performance evaluations were completed in the time period required; temporary employees who were retirees of the Tennessee Consolidated Retirement System were employed in compliance with Section 8-36-805, *Tennessee Code Annotated*; and access to SEIS was limited to those persons whose job duties required it.

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 each year.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letter for June 30, 2001, was submitted on time; however, the responsibility letter for June 30, 2000, was not submitted until October 27, 2000.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, 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 each year. The Tennessee Regulatory Authority filed its compliance reports and implementation plans on June 29, 2001, and June 30, 2000.

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. 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.

APPENDIX

ALLOTMENT CODES

The Tennessee Regulatory Authority has one division and allotment code: 316.11.