

Tennessee Corrections Institute

June 2003

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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

June 3, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Mr. Charles David Hensley, Executive Director
Tennessee Corrections Institute
Eighth Floor, Andrew Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Corrections Institute for the period July 1, 2000, through January 31, 2003.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
03/048



**STATE OF TENNESSEE
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February 28, 2003

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 Corrections Institute for the period July 1, 2000, through January 31, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Corrections Institute's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Corrections Institute is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The institute's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

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

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Corrections Institute
For the Period July 1, 2000, Through January 31, 2003

AUDIT SCOPE

We have audited the Tennessee Corrections Institute for the period July 1, 2000, through January 31, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, equipment, payroll and personnel, computer security, inspection of local correctional facilities, and the Financial Integrity Act. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Weak Controls Over Equipment

Audit procedures performed on the institute's property listing and equipment purchases during the audit period revealed weaknesses in controls (page 5).

Local Correctional Facilities Not Inspected*

The institute did not perform annual inspections at all facilities (page 7).

* This finding is repeated from prior audits.

"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 Corrections Institute
For the Period July 1, 2000, Through January 31, 2003

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Tennessee Corrections Institute

For the Period July 1, 2000, Through January 31, 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Corrections Institute. 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

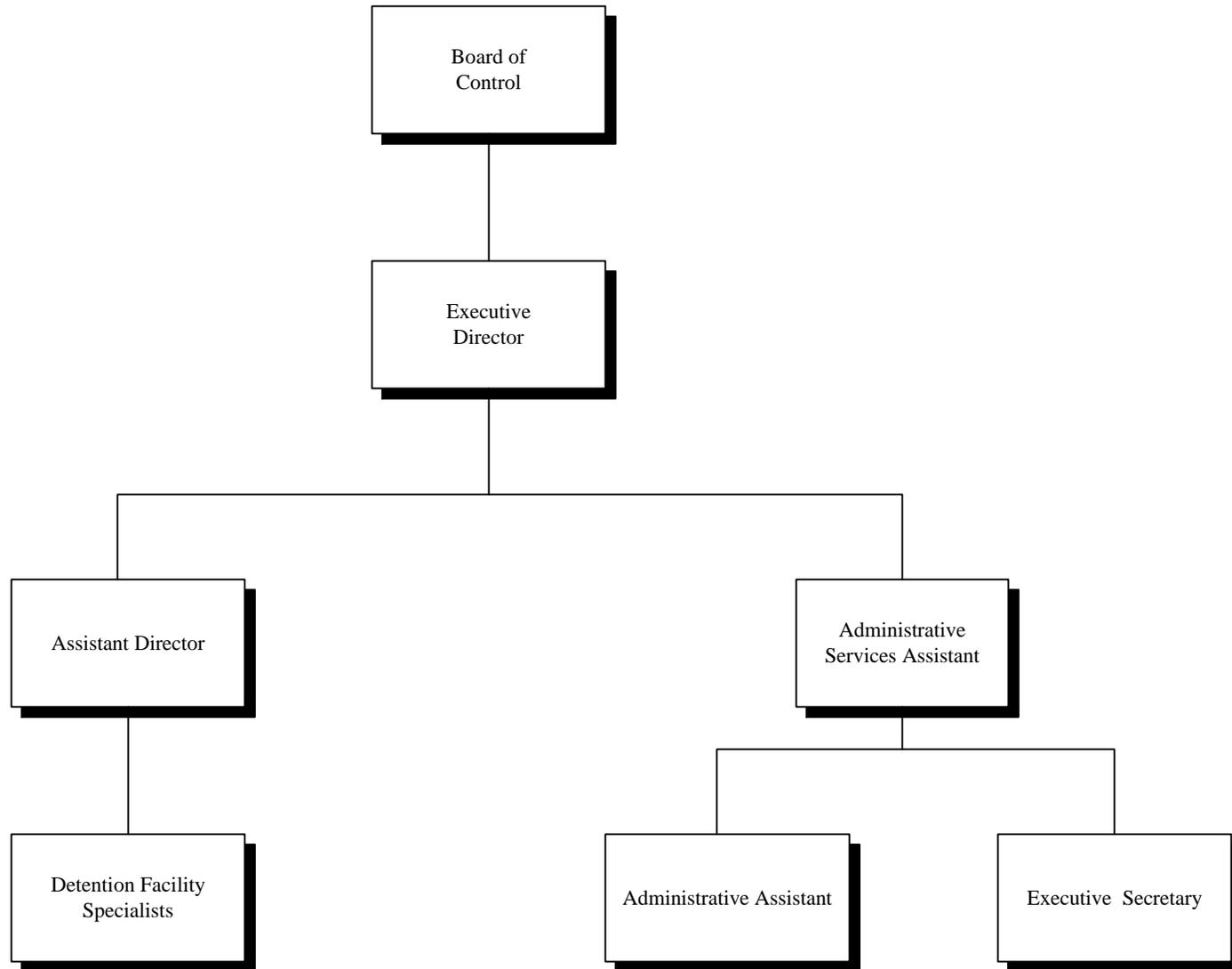
The Tennessee Corrections Institute provides support services for local penal systems in Tennessee. The institute educates local correctional staff in areas such as legal issues, report writing, communications, and security measures. The institute also establishes standards that it uses to inspect and certify local adult correctional facilities in areas such as physical environment, medical services, and inmate supervision. The institute also responds to requests for technical assistance from correctional facilities and governmental agencies.

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

AUDIT SCOPE

We have audited the Tennessee Corrections Institute for the period July 1, 2000, through January 31, 2003. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, equipment, payroll and personnel, computer system security, inspection of local correctional facilities, and the Financial Integrity Act. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

TENNESSEE CORRECTIONS INSTITUTE ORGANIZATION CHART



The Tennessee Corrections Institute is accounted for in allotment code 316.09.

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 Tennessee Corrections Institute filed its report with the Department of Audit on September 17, 2001. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning the inspection of local correctional facilities. Although some improvements were made in the area of reinspections, this finding has not been completely resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

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

- policies and procedures regarding expenditures were adequate;
- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting records;
- payments to vendors were made promptly;
- institute records were reconciled with reports from the state's accounting system; and
- expenditures were in compliance with applicable state regulations.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over expenditures and to determine whether institute records were reconciled with reports from the state's accounting system. We also tested a nonstatistical sample of expenditures for the period July 1, 2000, through December 31, 2002.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding expenditures were adequate and that institute records were reconciled with reports from the state's accounting system. Based on our testwork, we

determined that recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting records; payments to vendors were made promptly; and expenditures were in compliance with applicable state regulations. Although we had no findings related to expenditures, minor weaknesses were reported to management in a separate letter.

EQUIPMENT

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

- policies and procedures regarding equipment were adequate;
- equipment purchases were properly added to the property listing and recorded in the state's accounting system;
- the institute's property listing represented a complete and valid listing of the assets physically on hand;
- assignment of equipment to authorized personnel was properly documented; and
- equipment purchased with federal funds was reported to the grantor.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over equipment. We traced all equipment purchases for the period July 1, 2000, through December 31, 2002, to the invoice to determine whether equipment purchases were properly added to the property listing and recorded in the state's accounting system. We physically located or confirmed a nonstatistical sample of equipment from the December 31, 2002, property listing and determined whether any equipment purchased with federal funds was reported to the grantor. We also reviewed the institute's property records to determine whether assignment of equipment was properly recorded.

Based on interviews, reviews of supporting documentation, and testwork, we determined that control policies and procedures regarding equipment were not always adequate. We determined that the institute's property listing represented a complete and valid listing of the assets physically on hand. However, we determined that equipment purchases were not always correctly added to the property listing, recorded in the accounting system, or reported to the grantor as applicable. In addition, we found that equipment assignments to personnel were not always documented. These issues are discussed in finding 1.

1. Controls over equipment are weak

Finding

The Tennessee Corrections Institute needs to strengthen controls over equipment. Audit procedures performed on the institute's property listing and equipment purchases during the audit period revealed the following weaknesses:

- For 10 of 19 equipment items tested (52%), there was no documentation on file to indicate who had been assigned responsibility for the item. Most of these items were kept at the employees' homes.
- Twenty-seven purchases tested were incorrectly charged to the equipment or sensitive item object codes. These items should have been charged to object codes designated for supplies and materials.
- The serial number for a computer was incorrectly listed in the Property of the State of Tennessee (POST) system.

The institute is a subrecipient of the Byrne Formula Grant Program. The Office of Criminal Justice Programs in the Department of Finance and Administration administers this federal formula grant, which is the major funding source for the equipment purchased by the institute. The following weaknesses were noted regarding the equipment purchased with federal funds:

- There was no indication in POST that any of the 30 items had been purchased with federal funds.
- The institute did not always report equipment purchased with federal funds to the grantor.

Procedures established by General Services for equipment require the institute to maintain accurate property records. The failure to properly record equipment weakens accountability for equipment and may result in loss of equipment.

Recommendation

The property officer should document assignment of equipment items to employees. The property officer should monitor purchases to ensure that they are charged to the proper object codes. Equipment purchased with federal funds should be properly recorded in POST and reported to the grantor. The executive director should frequently monitor equipment activities to strengthen accountability and ensure compliance.

Management's Comment

We concur. We have implemented procedures that insure that all of our equipment is tagged, charged and accounted for properly. We have noted in the POST inventory system the items bought with federal funds. We have also put into procedure a system that lists each piece of equipment and which employee has it.

PAYROLL AND PERSONNEL

Our objectives for reviewing payroll and personnel controls and procedures were to determine whether

- policies and procedures regarding payroll and personnel were adequate;
- payroll disbursements were authorized, adequately supported, and properly calculated; and
- annual, compensatory, and sick leave were earned and taken in accordance with Department of Personnel guidelines.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over payroll and personnel. We also tested a nonstatistical sample of payroll transactions for the period July 1, 2000, through December 31, 2002.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding payroll and personnel were adequate. Based on our testwork, we determined that payroll disbursements were authorized, adequately supported, and properly calculated, and leave was earned and taken in accordance with Department of Personnel guidelines. Although we had no findings related to payroll and personnel, minor weaknesses were reported to management in a separate letter.

COMPUTER SYSTEM SECURITY

Our objective for reviewing computer system security controls and procedures was to determine whether the system access granted to institute employees was appropriately documented, was approved, and appeared reasonable based on the types of duties the employees performed.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over computer system security. We assessed the institute's systems to determine which employees were recognized users of the system to determine these employees' level of security. We reviewed the documentation

authorizing these employees to access the systems and compared the employees' level of access to the employees' job description.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the system access granted to institute employees was appropriately documented, was approved, and appeared reasonable based on the types of duties the employees performed.

INSPECTION OF LOCAL CORRECTIONAL FACILITIES

Our objectives for reviewing the controls and procedures over inspections of local correctional facilities were

- to determine whether institute policies and procedures for the inspection of local correctional facilities complied with Section 41-4-140, *Tennessee Code Annotated*; and
- to determine whether local correctional facilities were inspected as required by Section 41-4-140, *Tennessee Code Annotated*.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over the inspection of local correctional facilities. We reviewed the most current inspection logs and tested a nonstatistical sample of reports completed for inspections during calendar years 2001 and 2002.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the institute's policies and procedures for the inspection of local correctional facilities complied with Section 41-4-140, *Tennessee Code Annotated*. However, we determined that the local correctional facilities were not being inspected in accordance with Section 41-4-140, *Tennessee Code Annotated*, as discussed in the following finding.

2. Local correctional facilities were not inspected in accordance with state statute

Finding

As noted in the prior two audits, the Tennessee Corrections Institute did not inspect local correctional facilities in accordance with Section 41-4-140, *Tennessee Code Annotated*. This statute requires the institute to inspect all local correctional facilities annually and to certify compliance with minimum state standards. If a facility does not qualify for certification, an extension of up to 60 days may be granted to allow the facility to make the necessary improvements and the institute to reinspect the facility. Management concurred with the prior finding and stated that it had taken steps to assure that every facility is inspected at least once a year. Management also implemented a November 1 deadline for annual inspections to allow for the 60 days to complete a reinspection if necessary before the end of the year.

Although improvements have been made, testwork revealed that two facilities were not inspected as required by Section 41-4-140, *Tennessee Code Annotated*. Metro Davidson County Detention Center was not inspected during calendar year 2001, and Shelby County Jail was not inspected during calendar year 2002. Prior inspections revealed that Metro Davidson County Detention Center had an inmate population of 1,228 inmates, and Shelby County had a population of 2,111 inmates.

The annual inspections are necessary to ensure that the local correctional facilities maintain the minimum state standards. If the Tennessee Corrections Institute does not inspect the local correctional facilities in accordance with Section 41-4-140, *Tennessee Code Annotated*, the number of successful inmate lawsuits concerning living conditions could increase, or facility employees or members of the public could be injured if an inmate attempts to escape.

Recommendation

The Executive Director should establish procedures to ensure that every local correctional facility is inspected annually and should monitor compliance with those procedures.

Management's Comment

We concur. Management will make it policy to double-check that all facilities have been annually inspected.

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 institute's June 30, 2002, and June 30, 2001, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2002, and June 30, 2001, 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 letters were submitted on time.