

Tennessee Wildlife Resources Agency

June 2003

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STATE OF TENNESSEE
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State Capitol
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John G. Morgan
Comptroller

August 14, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Gary Myers, Executive Director
Tennessee Wildlife Resources Agency
Ellington Agricultural Center
Nashville, Tennessee 37204

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Wildlife Resources Agency for the period July 1, 2000, through June 2, 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/mb
03/049



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DEPARTMENT OF AUDIT
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June 2, 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 Wildlife Resources Agency for the period July 1, 2000, through June 2, 2003.

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 Wildlife Resources Agency's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Wildlife Resources Agency 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 agency'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 agency's internal controls to the Tennessee Wildlife Resources Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Wildlife Resources Agency
June 2003

AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period July 1, 2000, through June 2, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, the Remote Easy Access License (REAL) system, federal grant compliance, 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

Controls Over Cash Receipts for the Managed Quota Hunts Division of the Central Office Need to Be Improved

For 24 years, the Tennessee Wildlife Resources Agency has received audit findings regarding the lack of controls over the cash receipt process. Controls over cash receipts in the Managed Quota Hunts Offices still need to be strengthened (page 5).

TWRA Should Maintain Subsidiary Records for Lease Agreements

The agency does not maintain subsidiary records for lease agreements; therefore, it is unable to reconcile payments received to the original lease agreements (page 7).

TWRA Is Not Adequately Maintaining Equipment Records

The agency has not adequately updated the Property of the State of Tennessee (POST) system to reflect accurate information regarding equipment (page 9).

TWRA Did Not Comply With Department of Finance and Administration Policy 20

In the prior year, the Tennessee Wildlife Resources Agency (TWRA) had received an audit finding regarding the failure to comply with many of the provisions of Department of Finance and Administration Policy 20. TWRA has resolved several of the problems from the prior-year finding. However, the agency has continued to fail to comply with all of the requirements (page 13).

"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 Wildlife Resources Agency
June 2003

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Tennessee Wildlife Resources Agency

June 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Wildlife Resources Agency. 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 Wildlife Resources Agency (TWRA) is to preserve, conserve, manage, protect, and enhance the state’s wildlife and the environment for the use, benefit, and enjoyment of the people of this state and its visitors. TWRA also manages certain nongame wildlife to ensure their continuation. Additionally, the agency is responsible for promoting boating safety in Tennessee.

In order to fulfill its mission, the agency is governed by the Tennessee Wildlife Resources Commission. The 13-member commission consists of the Commissioner of Environment and Conservation, the Commissioner of Agriculture, nine members appointed by the Governor, one member appointed by the Speaker of the House, and one member appointed by the Speaker of the Senate. Daily operations are performed through two primary areas: staff operations and field operations. The major functions of TWRA include law enforcement; operation of lakes, hatcheries, and management areas; information/education; boating and hunter safety; public information; and habitat protection.

TWRA is self-supporting, financed by revenues from the sale of hunting and fishing licenses, boating and other permits, and fines assessed for the violation of game and fishing laws. The agency also receives an apportionment of federal taxes levied on the sale of hunting and fishing equipment under the provisions of the Federal Aid in Wildlife Restoration and Federal Aid in Sport Fish Restoration Acts.

The Tennessee Wildlife Resources Agency and Boating Safety each operate with a revolving fund. The reserve account balances are amounts of revenues exceeding expenditures. The balances are carried forward every year in the reserve accounts and do not revert to the general fund.

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

AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period July 1, 2000, through June 2, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, the Remote Easy Access License (REAL) system, federal grant compliance, 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 FINDINGS

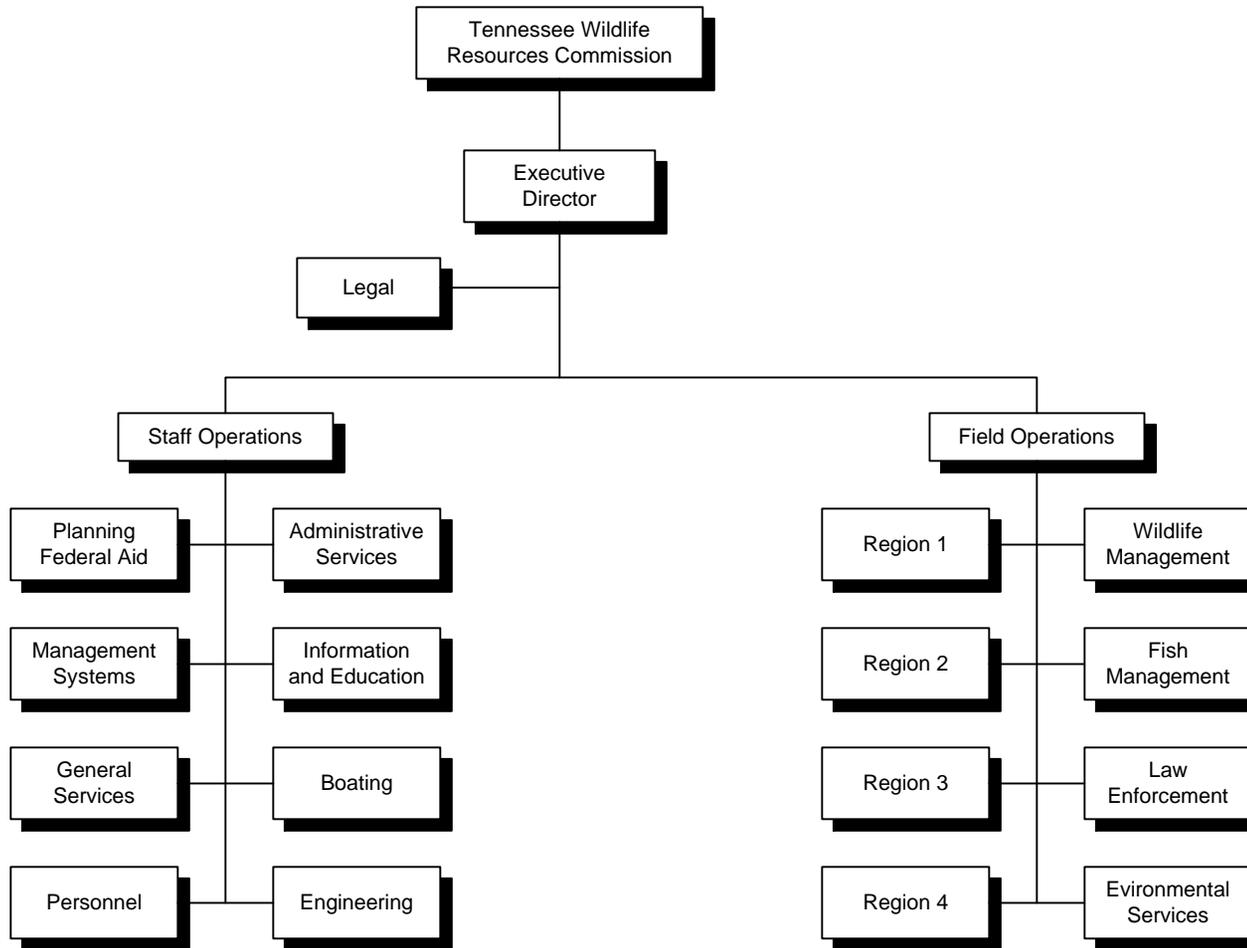
Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Wildlife Resources Agency filed its report with the Department of Audit on May 31, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDINGS

The prior audit report contained a finding concerning a lack of sufficient controls over cash receipts. Although management has taken steps to correct certain aspects of the prior finding, portions of the finding pertaining to Managed Quota Hunts are not yet resolved. Therefore, the finding is repeated.

The prior audit report also contained a finding concerning TWRA's compliance with Department of Finance and Administration Policy 20. Although management has taken steps to correct certain aspects of the prior finding, portions of the finding are not yet resolved. Therefore, the finding is repeated.

Tennessee Wildlife Resources Agency Organizational Chart



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

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

- controls over cash receipting were adequate;
- lease revenue transactions were recorded accurately in the accounting records and were properly documented;
- lease payments collected during the audit period were deposited timely, accounted for in the appropriate fiscal year, and deposited intact;
- lessees were properly billed or charged, and charges were recorded at the correct amount;
- financial records were reconciled to STARS;
- lease subsidiary accounts were properly maintained; and
- lease revenue delinquencies were sent notices, and accounts receivable were aged.

We interviewed key personnel to gain an understanding of the agency's procedures and controls for safeguarding and accounting for revenue. We tested the population of small lease receipts during the audit period and observed related deposits and accounting records. Small leases consist of housing permits, property rentals, and a cellular tower. In addition, we tested a nonstatistical sample of sharecrop lease receipts to ensure revenue transactions were recorded accurately and properly documented. Small lease and sharecrop lease receipts were also observed to ensure revenue was billed and recorded at the correct amount. We observed deposits for the small leases and deposits for the sample of sharecrop leases to ensure deposits were made timely and intact. We also observed deposits at year-end, during the audit period, to ensure deposits were made in the appropriate fiscal year. We observed the auditee's reconciliations to STARS. We tested the population of small lease agreements and a nonstatistical sample of sharecrop lease agreements during the audit period to ensure subsidiary accounts were maintained, delinquent accounts were sent notices, and, if applicable, accounts receivable aged.

Based on our discussions with key personnel and walk-through observations, it was noted that the controls over cash receipting in the Managed Quota Hunts Division were not adequate, as reported finding 1. Based on our testwork of lease receipts and lease agreements, we determined that the agency does not reconcile lease agreements to receipts. Furthermore, the agency performs no reconciliations of its subsidiary records with its lease revenue collections.

Therefore, payment delinquencies could not be determined, and an aging of lease revenue receivable is not performed. These matters are further discussed in finding 2. In addition, other minor instances of noncompliance were noted in a separate letter to management.

1. Controls over cash receipts for the Managed Quota Hunts Division of the central office need to be improved

Finding

For 24 years, the Tennessee Wildlife Resources Agency has received audit findings regarding the lack of controls over the cash receipt process. In response to these findings, the agency has taken many steps to correct the problems. The agency has implemented the Remote Easy Access License system (REAL) to sell licenses, collections at the central offices and the Region II building have been reduced to two locations, and mail procedures were modified. These changes have produced a major improvement in the controls over the cash receipt process. However, controls over cash receipts in the Managed Quota Hunts offices still need to be strengthened.

The Managed Quota Hunts Division collects approximately \$166,000 in annual revenue for quota hunts' permits. Employees performing the cash receipting duties stated that checks and applications received in the mail are routed to the division unopened. These are opened by temporary employees, when available, or by the Managed Quota Hunts Clerk III. If the application includes a check, the check number and amount are written on the application. The check is then attached to the application. Once there are 100 applications, the temporary employee gives them to the Managed Quota Hunts Clerk III. The clerk takes the batch of applications she prepared or received and verifies if the proper amounts were paid and if applicants are properly qualified. If the amount paid is short of the amount required or if the applicant is not qualified, a copy of the check and application is made, and funds are returned to the sender with a letter of explanation. The remaining approved applications are given an application number, which is written on the check and application. When ten batches of a hundred are prepared, the checks are then removed and given to the Quota Hunts Supervisor-Account Tech I, who prepares the deposit slip and then restrictively endorses the checks. The related applications are entered into a computer database by the Data Entry section. After the applications are entered, the Supervisor-Account Tech I compares the data entry total to the deposit. While applications (with the attached checks) are waiting to be collected for both approval and deposit, they are kept in a safe that is accessible to all employees involved in the process. In addition, if complete batches are not collected, funds stay in the vault until a full batch is collected or until there is a specific hunt deadline.

The following is a list of specific items from the prior finding that are repeated for the current audit period related to Managed Quota Hunts:

- checks were not restrictively endorsed immediately as the mail was opened, and
- procedures were not in place to ensure that deposits were always made in a timely manner.

The following weaknesses were also noted during the current audit:

- Duties did not appear to be adequately segregated. At times, the same person who opened the mail also prepared the bank deposit. In addition, checks appeared to be available to all personnel.
- A complete daily log is not kept of funds received. The Data Entry section prepares a batch listing of the applications sent to it by Managed Quota Hunts. Managed Quota Hunts personnel compare the listing with the deposits. However, there is no reconciliation between the batch listing, deposits, and the amounts recorded in the accounting records.
- Procedures were not in place to ensure that year-end cutoff policies were followed for deposits.

Recommendation

Managed Quota Hunts should improve controls over its cash receipts procedures. Specifically, management should effectively secure receipts prior to deposit and restrictively endorse checks at the earliest possible time during processing. The current procedure of delaying deposits until 1,000 applicants are processed should be modified so that the unnecessary delays in deposits are eliminated. Management should also reconcile deposit and application amounts with the accounting records, and the responsibility of reconciliation should be segregated from deposit preparation. Furthermore, management should establish procedures to ensure funds collected at year-end are deposited on the last day of the year and that all collections are reported in the proper period.

Management's Comment

We concur. However, we feel the volume of applications we handle in the time allowed with current staffing makes it impossible to endorse each check, money order, etc. as mail is opened. We use an endorsement machine that is very time effective and efficient for groups of checks, not for individual endorsements. Additionally, since several checks and money orders have to be returned to the applicants rather than processed, endorsing them creates an inconvenience for the applicants. We feel our system is a good compromise for providing integrity of our system and responsiveness to our customers.

Steps have been taken to ensure deposits are made in a timely manner. We have requested an exception to Policy 25 – Deposit Practices to extend the time from mail opening to deposit. All funds received by the Quota Hunts division will be deposited within a timely manner. Under normal conditions our procedures do meet the deposit requirements. If necessary we make deposits with less batches than is specified to meet the requirements.

Duties are now separated and anyone opening mail will not make a deposit. We do not see any way for checks to not be available to all personnel that open mail because we have no way to determine which letters may have checks enclosed.

We find it impossible to have a daily log of all funds received due to the volume of mail and time involved. We do log check amounts and payees on the applications when opened. This allows for cross-reference and reconciliation during and after processing. We have changed procedures and our Revenue Division will perform the reconciliation between Quota Hunts and Data Entry as well as the balancing of Hunts Division revenue with the STARS accounting report.

Procedures were in place for end-of-year deposit cutoff. This was an oversight due to personnel transitions. Deposit policies have been reinforced to eliminate future problems.

2. TWRA should maintain subsidiary records for lease agreements

Finding

Tennessee Wildlife Resources Agency (TWRA) has over 200 lease agreements for the use of its land and/or property. The different types of lease agreements include sharecropping leases, housing permits, property leases, and a cellular tower lease. These agreements have various payment terms such as cash, services, or a combination of cash and services. Services provided as a payment include leaving a percentage of the crops planted on the leased area for the wildlife and/or performing maintenance to TWRA-owned land. Furthermore, these lease agreements also allow area wildlife managers to adjust the payment amounts. Area wildlife managers are not required to document the nature or amount of these adjustments by the lessee. Furthermore, the agency does not maintain a subsidiary ledger for lease revenues; therefore, it is unable to reconcile payments received to the original lease agreements.

The agency does not have a policy requiring the area wildlife managers to document services received for leases not requiring cash payments. Therefore, the agency has no evidence that these lessees are leaving the negotiated percentages of crops for the wildlife and/or performing maintenance to the land in compliance with their agreements. The agency also does not reconcile lease agreements to payment receipts for revenue-generating leases.

A nonstatistical sample of 25 sharecrop leases was selected to test compliance with the lease terms. It could not be determined whether 13 of the 25 leases had complied with the payment provisions. Seven of these leases required a negotiated percentage of crops for wildlife, the collections for four leases are made by the Tennessee Valley Authority and are not reported to the agency, and there was no evidence that one lessee had made any payments. In addition, one lessee paid less than the stipulated amount; however, there was no evidence that either party had agreed to an adjustment of the amount due.

Also, the ten small lease agreements consisting of housing permits, property rental, and a cellular tower were tested for compliance with the lease agreements. Based upon comparisons of the agency's deposit records with these lease agreements, it was noted that the agency did not have evidence that five lessees had complied with their agreements either through documented payments or authorized adjustments.

Without maintenance of centralized subsidiary records, the agency is unable to effectively reconcile lease payments received with the lease agreements. The agency's lack of policies requiring evidence of compliance with lease provisions or authorized adjustments makes it impossible for management to determine delinquent lease payments and noncompliance with other lease provisions regarding services received and crops set aside for wildlife.

Recommendation

Management should maintain a centralized subsidiary ledger and perform reconciliations between cash collections and lease agreements. In addition, management should require wildlife agents to provide the office with documentation of services received, or support for adjustments for noncash lease payments. Comparisons between such documentation and lease agreements should be made monthly, delinquent accounts should be identified, and prompt action should be taken against lessees not in compliance.

Management's Comment

We concur with the findings and are taking steps to initiate a field procedure so documents and checks are sent to the Real Estate and Forestry Division to be entered into a ledger. Part of the process will be to establish a procedure where the field manager documents crops left in the field.

A subsidiary ledger will be maintained in the Real Estate and Forestry Division office and will be reconciled monthly against lease agreements, contracts and deposits captured in STARS. Prompt action will be taken to receive owed payments.

EQUIPMENT

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

- controls over equipment were adequate;
- leased equipment from the Office for Information Resources (OIR) was inventoried on an annual basis, and the results of those inventories were reported to the Department of Finance and Administration;

- equipment purchased during the audit period was recorded correctly in the Property of the State of Tennessee (POST) system and could be physically located or verified by written confirmation;
- equipment recorded in POST could be physically located or verified by written confirmation, and whether tag number and pertinent information were correct;
- equipment located in the Nashville office was properly tagged and recorded correctly in POST;
- equipment lost or stolen during the audit period was timely reported to the Comptroller's Office and taken off of POST;
- the controls and procedures over seized assets were adequate; and
- controls over access to POST were adequate.

We interviewed key personnel to gain an understanding of the department's procedures and controls for safeguarding and accounting for equipment. We reviewed supporting documentation for these procedures and controls. We also obtained an independent confirmation from the Department of Finance and Administration to determine if the agency had conducted and documented an annual inventory of the equipment leased from the Office of Information Resources at the Department of Finance and Administration. In addition, we tested three nonstatistical samples of equipment items and assessed the physical security over equipment items. We tested the population of equipment lost or stolen during the audit period to ensure that the items were properly reported and taken off of POST. We reviewed the policies and procedures over seized assets to determine whether they are adequate. Also, we reviewed the list of employees with access to POST to ensure that only the proper employees had access.

Based on our testwork, certain controls over equipment appeared adequate. Leased equipment was reported properly to OIR and the Department of Finance and Administration. Controls over seized assets and employee access to POST records appeared adequate. However, as noted in finding 3, we noted numerous problems with the agency's property records and timely reporting of lost or stolen equipment to the Comptroller of the Treasury.

3. TWRA is not adequately maintaining equipment records

Finding

The agency has not adequately updated the Property of the State of Tennessee (POST) system to reflect accurate information regarding equipment. The agency uses the POST system to keep track of its equipment. The information maintained in the system includes serial numbers, state tag numbers, costs, locations, dates of acquisition, and funding sources. Three separate samples of equipment were selected for review consisting of 25 items each: one from TWRA equipment listed in the POST system, one from physically observed equipment located in the Nashville TWRA office, and one from TWRA equipment purchases from July 1, 2000,

through February 28, 2003. Certain attributes were tested for each sample. As a result, the following discrepancies were noted:

- The serial number listed in POST was incorrect for 8 of the 75 items (11%) tested for this attribute.
- The location code listed in POST was incorrect for 5 of the 50 items (10%) tested for this attribute.
- The custodian listed in POST was incorrect for 10 of the 50 items (20%) tested for this attribute.
- State tags were not affixed to 5 of the 50 items (10%) tested for this attribute. In addition, auditors observed and were notified of several pieces of equipment which did not have a state tag number affixed to the item. Such items included guns, radios, and an underwater weed cutter. The Department of General Services' rules for adding assets to POST, Appendix B – Basic Requirements for Additions, states that all equipment listed on POST should be tagged. Part C specifically states, "All weapons are to be tagged and added to POST regardless of cost."

Furthermore, during the period from April 5, 2000, through June 28, 2002, there were 21 equipment items reported as lost or stolen to the Property Officer. Three of these items were not reported to the Comptroller's Office within a year after the Property Officer was notified. Furthermore, two additional items had not been reported to the Comptroller's Office and had not been removed from the POST listing. It appears that the Assistant Director of Field Operations is not promptly investigating reports of lost or stolen equipment.

Recommendation

Management should ensure that the data in the POST system are accurate and up-to-date. Changes in location, custodians, and other information should be promptly recorded in the POST system. Reports of lost or stolen equipment should be investigated promptly, and lost or stolen equipment should be reported to the Comptroller and removed from the POST records in a timely manner. All equipment should be properly identified with the state tag number.

Management's Comment

We concur. We will require persons completing receiving records to take serial numbers directly from property items and fill out the form legibly.

We will require custodians to place tags on property such as aquatic weed cutters and radios. We do feel placing state tags on sidearms is impractical because the bar code tag will wear off with the use of the sidearm, the metal tag creates a safety issue and our firearms cannot

be engraved because of the tenifer finish manufactured onto the weapon. We will request an exception to General Services POST policy, appendix b, item c pertaining to firearm tagging.

Reports of lost or stolen property will be promptly reviewed and forwarded to the Comptroller's office.

REMOTE EASY ACCESS LICENSE (REAL) SYSTEM

The objectives of our review of the Remote Easy Access License (REAL) System controls and procedures were to determine whether

- application controls for REAL systems were adequate;
- the agency has established procedures to ensure security of the database to prevent unauthorized access or distribution;
- agent agreements are properly documented and approved;
- REAL revenue transactions were recorded accurately in the accounting records and were properly documented;
- REAL cash collection during the audit period was deposited timely, accounted for in the appropriate fiscal year, and deposited intact;
- REAL electronic transfer collection from agents collected during the audit period was properly transferred to agency accounts; and
- REAL revenue delinquencies related to failed electronic transfers were sent notices, and accounts receivable were aged.

We reviewed the contract and its incorporated Request for Proposal, the design document for the REAL system, and other REAL supporting documentation. We discussed technical features of the REAL system with key personnel in TWRA's Information System's office to gain an understanding of the agency's procedures and controls. We interviewed key personnel in TWRA's Revenue Division to gain an understanding of the agency's procedures and controls for safeguarding and accounting for REAL revenue. We tested a sample of agent agreements for proper documentation and approval. We tested a sample of wire-type journal vouchers to determine electronic transfers were recorded accurately and properly documented. We tested a sample of cash deposits to determine if REAL sales were recorded accurately, properly documented, and deposited timely. We discussed and reviewed TWRA policies and procedures related to failed electronic transfers to determine whether delinquencies were aged and agents were notified.

Based on our review and discussions with key personnel, we determined that the application controls of the REAL system were adequate. We determined the agency has established adequate policies and procedures for ensuring security of the database to prevent

unauthorized access or distribution. We also determined that REAL revenue transactions were recorded accurately in the accounting records and were properly documented. REAL cash collections during the audit period were deposited timely, accounted for in the appropriate fiscal year, and deposited intact. REAL electronic transfers collected during the audit period were properly transferred to the agency account. In addition, we determined agents with failed electronic transfers were aged, and agents notified of delinquencies. There were minor instances of noncompliance that were noted in a separate letter to management.

GRANT COMPLIANCE

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20

Department of Finance and Administration Policy 20, “Recording of Federal Grant Expenditures and Revenues,” requires that state agencies whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize STARS to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- grant awards were entered into STARS at the time the grant award notification was received;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the agency made drawdowns timely using the applicable STARS reports;
- the agency negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the agency utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the agency’s procedures and controls concerning Policy 20. We reviewed the applicable STARS grant tables and files. We reviewed the exemption from Department of Finance and Administration for Policy 20 payroll costs. We reviewed the drawdowns documentation. We reviewed the indirect cost recovery plan and the applicable drawdowns documentation. We reviewed the Schedules of Expenditures of Federal Awards for fiscal year end June 30, 2002, and June 30, 2001, and the financial status reports submitted to the federal government, with relating supporting documentation.

Based on our review of the applicable grant tables and files, it was noted that seven grants’ expenditures were not coded with the appropriate grant at the time the initial transaction

was recorded, as reported in the finding below. Based on our review of the Schedules of Expenditures of Federal Awards with related documentation, we determined that the agency failed to utilize STARS as a basis for preparing federal reports, as reported in the finding below. A minor instance of noncompliance was noted in a separate letter to management.

4. TWRA did not comply with Department of Finance and Administration Policy 20

Finding

In the prior audit, the Tennessee Wildlife Resources Agency (TWRA) received an audit finding regarding the failure to comply with many of the provisions of Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues," as issued in April 1991. Issues noted in the prior finding were that TWRA was not fully utilizing the State of Tennessee Accounting and Reporting System (STARS), was not entering grants into the STARS Grant Control Table, incorrectly coded expenditure transactions, was not making timely drawdowns, was not utilizing the STARS Grant Activity Schedule (Report No. 830) as the basis for preparing the Schedule of Expenditures of Federal Awards, was not utilizing STARS as the basis for preparing reports to the federal government, and was not obtaining a written exception from the Department of Finance and Administration for any departures.

TWRA has resolved several of the problems from the prior finding by obtaining an exemption from the Chief of Accounts, Department of Finance and Administration, for payroll-related grants using the Labor Distribution System. In addition, TWRA has attempted to resolve issues by entering grants into the STARS Grant Control Table, making timely drawdowns, and when possible utilizing STARS records for preparing federal reports. However, the agency has continued to fail to comply with all of the requirements of Department of Finance and Administration Policy 20, as revised in February 2000 and effective July 1, 2000. According to Section 2, all state departments, agencies, boards, and commissions which receive federal funds, complete a Schedule of Expenditures of Federal Awards, and maintain financial records on the State of Tennessee Accounting and Reporting System (STARS) must comply with Policy 20. TWRA meets all three criteria of Section 2 of Policy 20.

Section 6 states, "All grant related expenditure and revenue transactions must be coded with the appropriate grant(s) at the time the initial transaction is recorded." The amount on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2001, for the VPI Mussel Agreement grant, grant No. 1448-40181-G-070, was incorrectly reported as \$71,988.01. The amount contains prior-year expenditures in the amount of \$20,668.15. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2001, should have reported \$51,319.86. Also, several grant expenditures were not coded and recorded in STARS. The agency failed to code 6 of 21 grants' expenditures in STARS that were reported on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2002. Also, 3 of 12 grants' expenditures were not coded in STARS but were reported on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2001.

In addition, two grants had expenditures since fiscal year 1999 that were not reported on any Schedule of Expenditures of Federal Awards until the year ended June 30, 2002. The Lilly Bridge Gauging Station Grant (1443-CA-5640-97-001), first awarded to TWRA on October 1, 1997, had expenditures starting April 15, 1999. Also, the Big South Fork Gauging Station Grant (1443-CA-5130-98-001), first awarded to TWRA on April 30, 1998, had expenditures starting April 16, 1999.

Section 9 states, “Agencies must utilize the STARS ‘Schedule of Grant Activity’ Report as the basis for preparing the Schedules of Expenditures of Federal Awards.” As noted above, the agency failed to load several grants’ expenditures into STARS. Therefore, the agency was unable to utilize the STARS Grant Activity Report for all grants as a basis for preparing the Schedules of Expenditures of Federal Awards.

Recommendation

The agency should comply with all of the requirements of Policy 20, except as exempted by the Department of Finance and Administration. All grant-related expenditures and revenue transactions should be coded properly and entered timely into STARS. The agency should follow the applicable guidance and utilize the STARS Schedule of Grant Activity Report for preparing the Schedules of Expenditures of Federal Awards and other federal reporting.

Management’s Comment

We concur. We will strive to utilize STARS as directed by Policy 20. However, we have not been successful in creating a STARS environment that consistently accumulates all eligible expenditures. We have brought these issues to the attention of the Enterprise Resources Planning committee, and will continue discussions with Finance and Administration to try to resolve STARS related issues.

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, 2002, and June 30, 2001, responsibility letter was filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2002, and June 30, 2001, responsibility letter 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.

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, 1994, and each June 30th thereafter. The Tennessee Wildlife Resources Agency filed its compliance reports and implementation plans on June 30, 2002, and June 30, 2001.

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 subject to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of dates state agencies filled 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.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Section 4-4-123, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30th thereafter. The Tennessee Wildlife Resources Agency filed its compliance reports on June 30, 2002, and June 30, 2001.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Central Office is not in compliance with the federal law.

APPENDIX

ALLOTMENT CODES

Tennessee Wildlife Resources Agency division and allotment codes:

- 328.1 Tennessee Wildlife Resources Agency
- 328.2 Boating Safety Act
- 328.3 Wetlands Acquisition Fund
- 328.4 Wetlands Compensation Fund