

Department of Tourist Development

June 2004

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

June 17, 2004

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

and
The Honorable Susan Whitaker, Commissioner
Department of Tourist Development
Rachel Jackson Building, Fifth Floor
320 Sixth Avenue North
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Tourist Development for the period July 1, 2000, through February 29, 2004.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements 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/th
04/054



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March 19, 2004

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 Department of Tourist Development for the period July 1, 2000, through February 29, 2004.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Department of Tourist Development's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Tourist Development is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department'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 department's internal control and/or instances of noncompliance to the Department of Tourist Development's management in a separate letter.

Sincerely,

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

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Tourist Development
June 2004

AUDIT SCOPE

We have audited the Department of Tourist Development for the period July 1, 2000, through February 29, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of expenditures, equipment, grants, revenues, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Controls Over Expenditures Need Improvement

The department does not have an adequate segregation of duties related to purchasing, and the state's purchasing policies and procedures were not always followed (page 4).

Controls Over Cash Receipts Are Weak

Cash-receipting duties are not adequately segregated. Reconciliations between cash receipts, accounting records, and deposits are not performed by an employee independent of those functions. Cash receipts are not written immediately upon receipt of the funds (page 8).

Financial and Compliance Audit Department of Tourist Development

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTION | 1 |
| Post-Audit Authority | 1 |
| Background | 1 |
| AUDIT SCOPE | 3 |
| PRIOR AUDIT FINDING | 3 |
| OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS | 3 |
| Expenditures | 3 |
| Finding 1 – Controls over expenditures need improvement | 4 |
| Equipment | 5 |
| Grants | 6 |
| Revenue | 7 |
| Finding 2 – Controls over cash receipts are weak | 8 |
| Financial Integrity Act | 9 |
| APPENDIX | 9 |
| Allotment Codes | 9 |

Financial and Compliance Audit Department of Tourist Development

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Tourist Development. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires 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

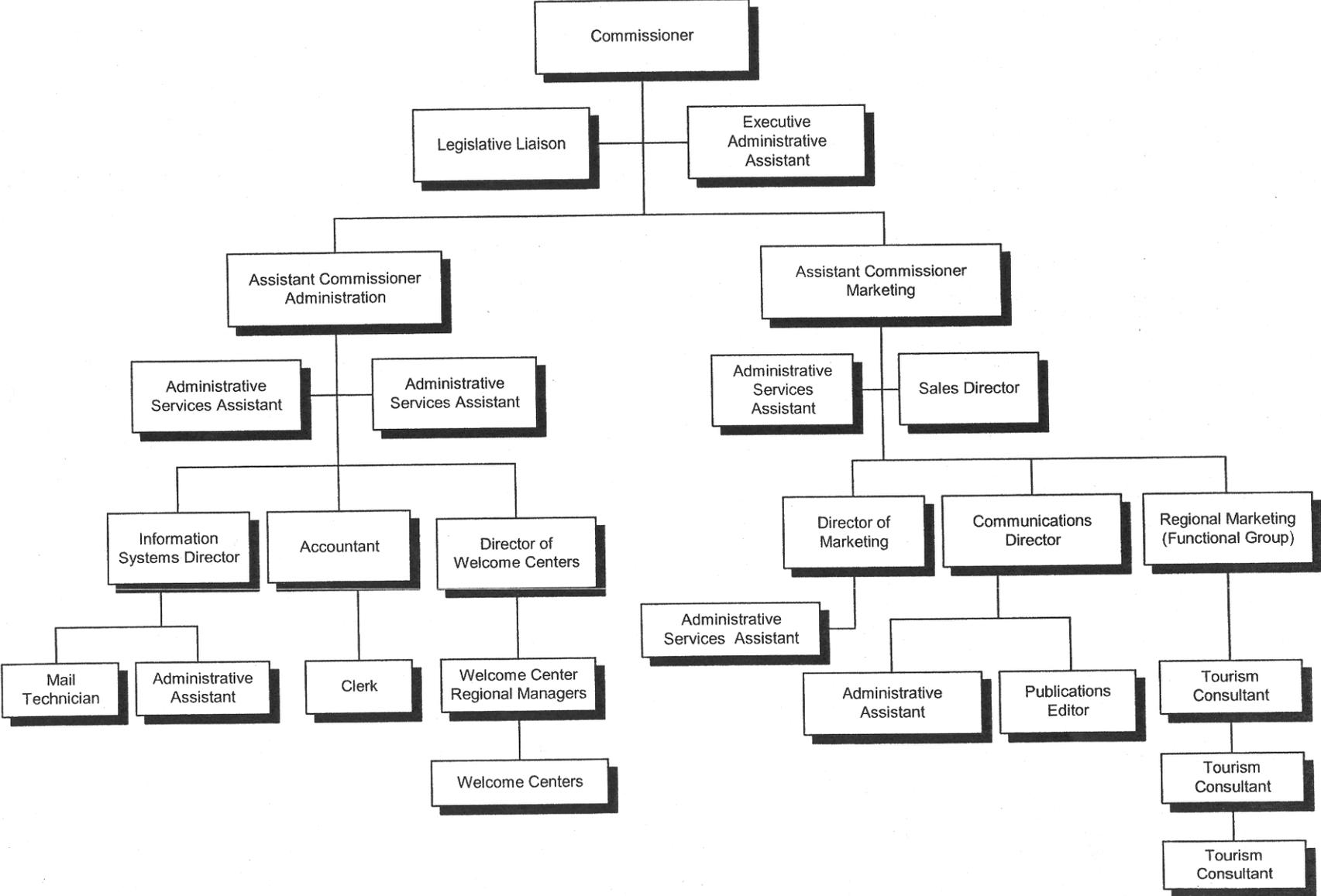
The mission of the Department of Tourist Development is to create and promote the desire to travel to and within Tennessee; to develop programs to encourage and support the growth of the state’s tourism industry; and to manage a system of welcome centers that provides visitors with a positive impression of Tennessee and encourages them to extend their stay, all of which contribute to the state’s economic growth, thereby enriching the lives of all Tennesseans. In order to fulfill this mission, the department has two major program areas: the Marketing and Administration Division and the Welcome Center Division.

The Marketing and Administration Division is organized into several functional areas that specialize in different marketing and administration activities: advertising and promotions, public relations and communications, sales, regional marketing and promotion services, support services, and general administration.

The Welcome Center Division operates a system of 13 welcome centers that are open 24 hours a day throughout the year. The centers provide visitors with information on attractions, lodging, and other travel related information; distribute promotional literature about Tennessee; make reservations; and provide other information to encourage travelers to extend their visit to Tennessee.

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

Department of Tourist Development Organization Chart



AUDIT SCOPE

We have audited the Department of Tourist Development for the period July 1, 2000, through February 29, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of expenditures, equipment, grants, revenues, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 Department of Tourist Development filed its report with the Department of Audit on November 20, 2001. A follow-up of the prior audit findings was conducted as part of the current audit.

The current audit disclosed that the Department of Tourist Development has corrected the previous audit finding concerning compliance with the Financial Integrity Act.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

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

- purchasing duties were adequately segregated;
- expenditures for goods or services were adequately supported, properly authorized, and correctly recorded in the state's accounting system;
- expenditures were in compliance with applicable state requirements;
- payments to vendors were made promptly and available discounts were taken;
- contract payments complied with contract terms and purchasing guidelines;
- voucher registers were properly approved; and
- reports received from the Department of Finance and Administration were reconciled with the department's records.

We interviewed key personnel to gain an understanding of the department's procedures and controls over expenditures. We then selected nonstatistical samples of expenditure transactions to determine if expenditures were adequately supported, properly authorized, correctly recorded, paid timely, and processed in accordance with the applicable state requirements and contract terms. We also reviewed some of the voucher registers processed during the audit period for approval and inspected some of the related monthly reconciliations.

Based on our testwork, we determined that expenditures for goods or services were adequately supported and correctly recorded and that contract payments complied with contract terms and purchasing guidelines. We determined that voucher registers were properly approved and that the department is reconciling its records with reports received from the Department of Finance and Administration. However, we determined that duties related to purchasing were not adequately segregated and that expenditures were not always properly authorized, paid timely, or made in accordance with applicable state requirements. These issues are discussed in finding 1.

1. Controls over expenditures need improvement

Finding

The Tennessee Department of Tourist Development does not adequately segregate duties related to purchasing, and the state's purchasing policies and procedures were not always followed. Samples of 50 expenditure transactions were tested for compliance with the applicable state requirements. As a result of the testwork performed, the following weaknesses over purchasing were noted:

- For 9 of 31 purchase orders tested (29%), the same individual originated the purchase order, approved the purchase order, and also received the items.
- For one of 9 transactions tested (11%), the department did not follow proper bidding procedures as required by the Department of General Services' *Agency Purchasing Procedures Manual*. The manual states that agencies must secure at least three competitive bids for all delegated purchases exceeding \$400. Delegated purchases are used for items less than \$2,000 that are not covered by a Statewide or Agency Term Contract. One order was processed for \$867, but the vendor selected was the only bid documented.
- Three of 50 transactions tested (6%) were not approved for payment. These items included one travel claim and two utility bills for the Welcome Centers. During other testwork, three payments for registration fees were observed that were not approved.
- For 7 of 31 transactions tested (23%), proper purchasing procedures were not followed. Purchase orders for these transactions were prepared after the invoice date. In addition, it appeared that someone had attempted to alter the date on three of these invoices to be on or after the date of the purchase order.

- For 4 of 13 vendor invoices tested (31%), available discounts offered by the vendor were not utilized by the department.

An additional sample of expenditure transactions charged to professional and administrative services was tested. This testwork revealed the following weaknesses:

- Three of 25 payments tested (12%) were initiated and approved by the same individual. One of these payments was for bus rentals costing \$1,200; however, no bids were obtained.
- One of the 25 payments tested (4%) was not properly approved. A portion of the payment was for travel related to a contract; however, the supporting travel claim was not properly completed or signed by the claimant or approved by a supervisor, and the name on the hotel receipt did not match the name on the travel claim.

Other audit procedures revealed that the department's *Administrative Policies and Procedures Manual* has not been updated since 1994, and purchasing procedures within the manual do not agree with those in General Services' purchasing guidelines.

Effective internal controls are essential to ensure that expenditures are adequately supported, correctly recorded, properly approved, and made in compliance with applicable state requirements.

Recommendation

The Commissioner should establish procedures to ensure that the purchasing duties are adequately segregated and that the proper purchasing procedures are followed. The Commissioner should then assign specific responsibility for monitoring these procedures to ensure compliance. In addition, management should update the department's *Administrative Policies and Procedures Manual* for the current state purchasing guidelines.

Management's Comment

We concur. The department is implementing procedures to segregate purchasing duties to comply with proper purchasing procedures.

EQUIPMENT

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

- the information on the department's equipment listed in the Property of the State of Tennessee (POST) system is accurate and complete;
- property and equipment are adequately safeguarded;

- equipment purchased during the audit period was properly recorded in POST; and
- vehicles and equipment leased by the department could be physically located.

We interviewed key personnel to gain an understanding of the department's procedures and controls for safeguarding and accounting for equipment. We also reviewed the annual equipment inventory administered by the department's property officer in conjunction with our evaluation of physical security procedures. We reviewed supporting documentation and tested a nonstatistical sample of equipment items from the POST system. Equipment items were physically located or confirmed, and description, tag number, serial number, and location were agreed to the POST listing. For items that were purchased during the audit period, the cost recorded in POST was traced to supporting documentation. In addition, we obtained the most current listing of vehicles and equipment leased by the department. We physically located or confirmed all vehicles to verify the license number, make and model, authorized user, and intended use of the vehicle. A nonstatistical sample of equipment used at the Welcome Centers was also confirmed.

Based on interviews, review of supporting documentation, and testwork, we determined that the information in POST is accurate and complete, with minor exceptions; property and equipment were adequately safeguarded; and equipment purchased during the audit period was properly recorded in POST. In addition, leased vehicles and equipment were physically located or confirmed.

GRANTS

The objectives of our review of grants were to determine whether

- grant expenditures were properly approved, adequately supported, and correctly recorded;
- grant expenditures exceeded authorized amounts;
- the grantees' matching portions were in compliance with the grant agreements;
- grant agreements were properly approved; and
- the information required by the department's rules had been received from the grantees.

We interviewed key personnel and reviewed the program guidelines to gain an understanding of the department's procedures and controls over grants. We tested a nonstatistical sample of grant expenditures for the period July 1, 2000, through December 31, 2003. We reviewed supporting documentation to determine whether these expenditures were properly approved, adequately supported, and correctly recorded and whether the grantees' matching portions complied with the grant agreements. We also reviewed the related grant folders to determine whether the grant agreements had been properly approved and whether the required information was included.

Based on our interviews, testwork, and reviews of supporting documentation, we concluded that grant expenditures were properly approved, adequately supported with an exception, and correctly recorded; grant expenditures did not exceed authorized amounts; the grantees' matching portions were in compliance with the grant agreements; the grant agreements had been properly approved with some exceptions; and the information required by the department's rules had been received from the grantees with some exceptions.

REVENUE

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

- controls over revenue were adequate;
- revenue was correctly recorded;
- the department reconciled its records with the revenue reports issued by the Department of Finance and Administration (F&A);
- prenumbered receipts were issued in sequence for all monies received, and copies of voided receipts were retained;
- receipts were deposited in a timely manner; and
- receipts agreed with amounts deposited.

We interviewed key personnel to gain an understanding of the department's procedures and controls over revenue. We reviewed supporting documentation to determine if revenue procedures were adequate. We examined the reconciliation of the department's records with the revenue reports issued by F&A. We tested a nonstatistical sample of prenumbered receipts for the period July 1, 2000, through November 30, 2003, for propriety. We also tested a nonstatistical sample of revenue transactions for the period July 1, 2000, through December 31, 2003, to determine if revenue was properly recorded.

Based on our interviews, reviews of supporting documentation, and testwork, we concluded that the department's monthly reconciliations of its records to revenue reports issued by F&A were proper. We also determined that prenumbered receipts had been issued in sequence and that receipts agreed with amounts deposited. However, our testwork revealed that controls over revenue were not adequate; revenue was not always correctly recorded; copies of voided receipts were not always retained; and timeliness of deposits could not be determined. These issues are discussed in finding 2.

2. Controls over cash receipts are weak

Finding

The Department of Tourist Development receives checks by mail throughout the year for various sponsored events such as conferences and banquets. These events are sponsored by the department to promote tourism in Tennessee. However, the department's controls over these receipts are weak. Testwork revealed the following problems:

- Cash-receipting duties are not adequately segregated. One employee prepares the deposits, makes the deposits, and posts the deposits to the accounting records.
- Reconciliations between cash receipts, accounting records, and deposits were not performed by an employee independent of the receipting, depositing, and posting functions.
- Three receipts were discarded in error rather than being voided and kept.
- Four of 25 revenue transactions tested (16%) were not recorded in the correct account.
- Cash receipts are not written immediately upon receipt of the funds. Checks received through the mail are opened, but receipts are not written immediately. Instead, all receipts are written on the day the funds are deposited. As a result, it could not be determined whether deposits were made timely.

Effective internal controls are essential to account for government resources and to ensure that revenue is properly accounted for. Management has the responsibility to institute control procedures that will ensure funds received are properly accounted for and to provide effective supervisory reviews that provide reasonable assurance of preventing or detecting errors and fraud.

Recommendation

Management should establish effective internal controls designed to segregate responsibilities or establish adequate compensating controls. Management should also ensure that reconciliations are performed by an employee not involved in the receipting and depositing of funds. Management should ensure that unused receipts are voided and kept and that revenue is recorded to the correct account. Also, management should ensure all incoming funds are receipted immediately as the mail is opened to ensure proper documentation of receipt.

Management's Comment

We concur. The department will develop internal controls to segregate responsibilities or establish adequate compensating controls necessary for the proper receipting, depositing, and reconciliation of funds.

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. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2003, 2002, and 2001, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 2003; June 30, 2002; and June 30, 2001, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letters were submitted on time; however, the internal accounting and administrative control report was submitted 14 days late. Support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. No weaknesses were identified in the report.

APPENDIX

ALLOTMENT CODES

- 326.01 Administration and Marketing
- 326.03 Welcome Centers