

Department of General Services

May 2005

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

May 17, 2005

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

and
The Honorable Gwendolyn Sims Davis, Commissioner
Department of General Services
Suite 2400, William R. Snodgrass Tennessee Tower
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of General Services for the period July 1, 2001, through April 30, 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
04/058



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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April 30, 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 General Services for the period July 1, 2001, through April 30, 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 General Services' compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of General Services 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 instances of noncompliance to the Department of General Services' management in a separate letter.

Sincerely,

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
Department of General Services
May 2005

AUDIT SCOPE

We have audited the Department of General Services for the period July 1, 2001, through April 30, 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, contracts, payment cards, surplus property inventory, segregation of duties within the Tennessee On-Line Purchasing System, 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

The Department Did Not Follow the State Purchasing Rules When Obtaining Routine Automotive Services

The Department of General Services, Division of Motor Vehicle Management, did not follow state purchasing rules when obtaining routine automotive maintenance such as car washes and oil changes. These parts and services were obtained without a contract or getting competitive bids (page 7).

The Department Had No Documented Approval for Out-of-State Travel

Although approval from the Commissioner of the Department of Personnel is required

for out-of-state travel, approval was not documented for out-of-state travel of federal property screeners (page 4).

Controls Over the Inventory and Sales of Surplus Property Need Improvement

The weaknesses noted include having no assurance that established procedures for the sale of surplus property are followed, no reconciliation of property sold to the funds collected, and no segregation of newly received items that were not yet recorded to the inventory records from items already included in the inventory records (page 9).

**The State Does Not Adequately Limit
Access to the Tennessee On-Line
Purchasing System**

The State of Tennessee has inadequate controls over the access levels of users of the Tennessee On-Line Purchasing System (TOPS) who also have access to the State of Tennessee Accounting and Reporting System (STARS). Of 539 persons with some level of TOPS access and STARS

write access, 16 individuals had levels of access that clearly created inadequate segregation of duties. These individuals could initiate, enter, and approve purchase requisitions; enter and approve purchase orders; record receipt of purchased items; approve the invoice for payment; and initiate the payment in STARS (page 12).

Financial and Compliance Audit Department of General Services

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Financial and Compliance Audit Department of General Services

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of General Services. 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 General Services is to provide quality goods and services to all state agencies to facilitate the operation of state government in the most timely, efficient, and economical manner. To accomplish this mission, the department provides a broad range of support services to other departments and agencies of state government. Those services include procurement of equipment and materials, building management and security, motor vehicle and equipment management, surplus property utilization, printing and photographic services, postal services, food services, records management, and central stores.

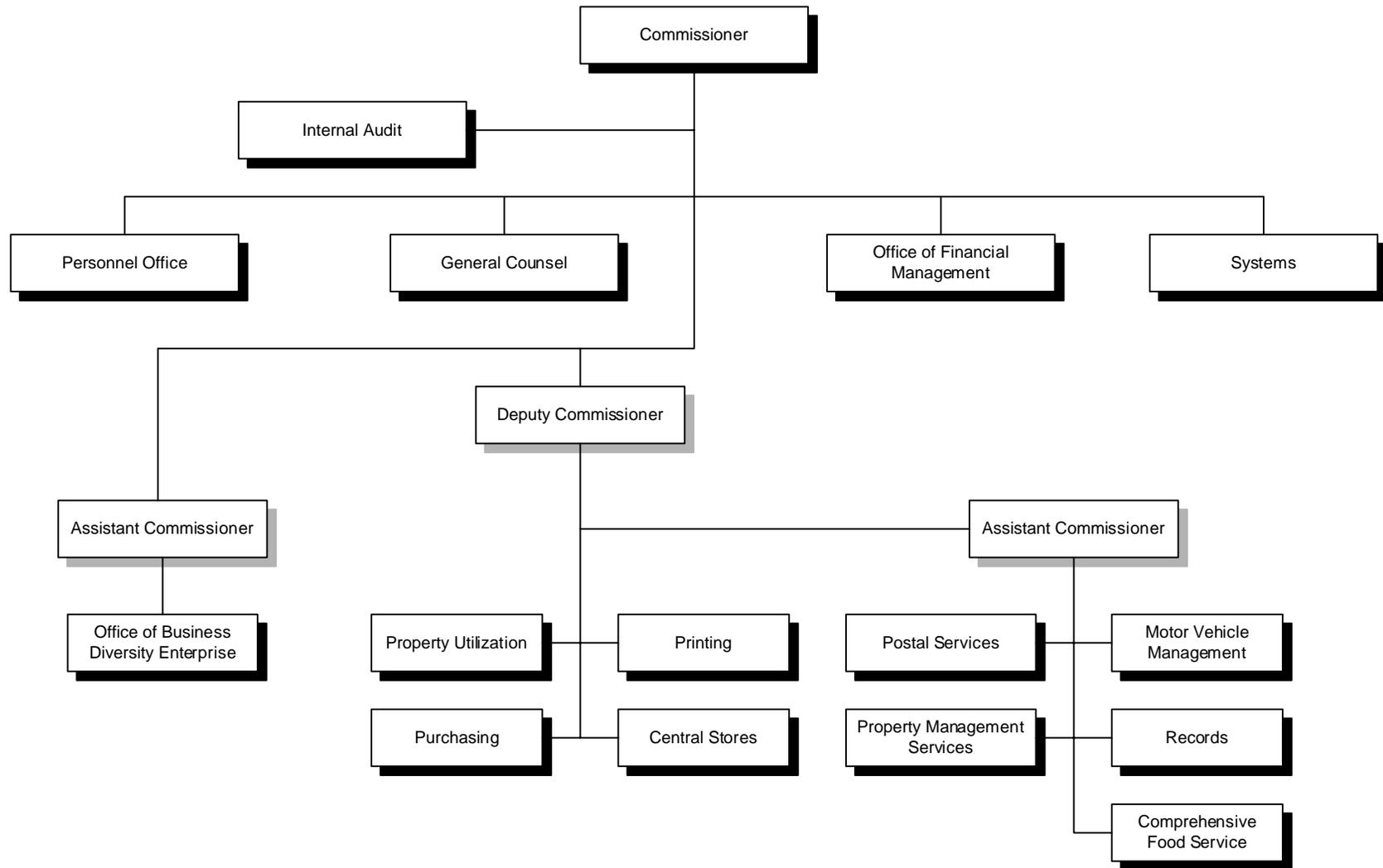
The department comprises four main areas: the Commissioner’s Office, Administrative Services, Property Management, and Purchasing Management. Each area consists of several divisions.

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

AUDIT SCOPE

We have audited the Department of General Services for the period July 1, 2001, through April 30, 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, contracts,

Department of General Services Organization Chart



payment cards, surplus property inventory, segregation of duties within the Tennessee On-Line Purchasing System, 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 General Services filed its report with the Department of Audit on October 23, 2002. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the Department of General Services has corrected a previous audit finding concerning inadequate controls over commercial credit cards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

Our objectives were to document internal controls over travel expenditures and to determine whether

- selected travel transactions only included travel-related items,
- selected travel claims and supporting documentation complied with Comprehensive Travel Regulations, and
- overtime payments were warranted.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over travel expenditures. We reviewed a listing of travel transactions that were missing information such as the vendor or employee name. From this listing, we selected charges related to permanently assigned vehicles, dispatch vehicles, reimbursements, reimbursements from and charges to other agencies, and warrant cancellations. We reviewed supporting documentation for these transactions to determine whether they complied with the Comprehensive Travel Regulations. We also selected the five employees who received the most travel reimbursements and examined their travel claims for the audit period to determine if the travel claims and supporting documentation complied with the Comprehensive Travel Regulations and if the transactions only included travel-related items. In addition, we analyzed overtime pay to

determine if higher than normal amounts of overtime occurred at certain times or in certain divisions. We also reviewed support and obtained explanations for the employees who earned more than \$5,000 in overtime pay during the audit period.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that internal controls over travel expenditures were adequate and that the travel expenditures examined appeared to only include travel-related items. Additionally, we determined that selected travel transactions, claims, and supporting documentation complied with the Comprehensive Travel Regulations except that the approval for out-of-state travel was not always documented as required by the Comprehensive Travel Regulations. (See finding 1.) We determined that the higher than normal amounts of overtime pay were due to heightened security measures following the terrorist attacks on September 11, 2001; a shortage of employees in the Delta room, which is operational 24 hours a day, every day per year; and repair of water damages at the state museum as a result of renovations on the Tennessee Performing Arts Center. These overtime payments appeared reasonable.

1. The department had no documented approval for out-of-state travel

Finding

Although approval from the Commissioner of the Department of Personnel is required for out-of-state travel, approval was not documented for out-of-state travel of federal property screeners. Out-of-state travel expenditures of \$16,627 were not supported by written approval from the Department of Personnel. According to management, an oral agreement existed between the prior commissioners of the Department of General Services and the Department of Personnel indicating that individual approvals for these screeners would not be necessary. However, no written documentation of this agreement could be provided.

Department of Finance and Administration Policy 8, Comprehensive Travel Regulations, paragraph 5(b) states:

The Commissioner of Personnel shall approve all out-of-state travel authorizations, including all exceptions to the travel policy and Reimbursement Rate Schedules for out-of-state travel. The approval of the requesting department head and review by the department's fiscal office is required prior to submission to the Commissioner of Personnel.

Recommendation

Management should obtain written approval from the Commissioner of Personnel for all out-of-state travel. Any exceptions to the travel policy should be approved by the Commissioner of Personnel and adequately documented.

Management's Comment

We concur. There was a "verbal agreement" entered between the former Commissioner of General Services and the Commissioner of Personnel for blanket approval of out-of-state trips for the federal surplus property screeners. All other out-of-state travel for the Department of General Services was submitted and approved by the Department of Personnel in accordance with the Department of Finance and Administration Policy 8, Comprehensive Travel Regulations.

We currently have a letter of understanding between the current Commissioner of General Services and the Commissioner of Personnel documenting the blanket approval for the federal property screeners.

CONTRACTS

Our objectives were to document internal controls and determine whether

- emergency purchase procedures were adequate and such purchases were limited to true emergencies,
- delegated purchase authority was used properly, and
- procedures for determining sole-source contracts were followed.

We interviewed key department personnel to determine the internal controls over contracts. We selected a nonstatistical sample of emergency purchases and reviewed the Tennessee On-Line Purchasing System for documentation of approval and an explanation for the emergency purchases to verify that procedures were adequate and purchases were for true emergencies. We reviewed a nonstatistical sample of delegated purchase authority contracts to determine if the contracts were adequately justified and properly approved. We interviewed key department personnel to gain an understanding of the procedures for sole-source contracts, and we selected a nonstatistical sample to determine whether the sole-source contracts were properly approved.

Based on our testwork, we determined that emergency purchase procedures were adequate and that emergency purchases were for true emergencies. We determined that the delegated purchase authority contracts were justified and properly approved. We determined that procedures over sole-source contracts were in place and that these sole-source contracts were properly approved.

PAYMENT CARDS

Our objectives were to document internal controls and to determine whether

- the cardholder was a Department of General Services employee who was not terminated or currently on suspension and, if the prior conditions existed, that the cardholder's privileges were terminated in a timely manner;
- the employee received proper training prior to card use, a payment card application and maintenance form was on file with the proper signatures, and the cardholder agreement was signed by the employee;
- purchases were made from appropriate vendors and not split to circumvent purchasing rules;
- expenditure transactions exceeded the daily and monthly dollar limits;
- payment card purchases and supporting documentation complied with the purchasing policies and procedures; and
- the payment card statement was reconciled to the cardholder's transaction log and the reconciliation and support was submitted in a timely manner to the central office.

We interviewed key personnel to determine the internal controls over payment cards. We tested a sample of cardholders to verify that internal controls were in place, to determine if the cardholder was an active Department of General Services employee who received training prior to using the card, to determine if a properly signed payment card application and maintenance form was on file, and to determine if the cardholder had signed the cardholder agreement. We also reviewed a listing of terminated employees to determine whether their payment cards were properly deactivated. We talked with the agency coordinator to determine if any misuse of payment cards had been identified. In addition, we reviewed an extract of all payment card transactions to determine whether purchases were made from inappropriate or suspicious vendors, to determine the possibility of split invoices, and to determine if daily and monthly dollar limits were exceeded. We also selected a nonstatistical sample of payment card purchases to determine whether the purchase complied with purchasing policies and procedures, to determine whether the payment card statement was reconciled to the cardholder's transaction log, and to determine whether the reconciliation and support were submitted to the central office in a timely manner.

Based on our interviews with key personnel and testwork, we determined that internal controls over payment cards were in place. We determined that the cardholders were active Department of General Services employees who received training prior to using the card, that properly signed payment card applications and maintenance forms were on file, and that the cardholders had signed the cardholder agreements. We also determined that terminated employees' payment cards were properly deactivated. The agency coordinator had not identified any misuse of the payment cards. We determined that payment card purchases complied with purchasing policies and procedures, that payment card statements were reconciled to the cardholder's transaction log, and that the reconciliations and support were submitted to the central office in a timely manner. Our review of the payment card transactions extract did not

reveal any inappropriate or suspicious vendors or possibilities of split invoices. However, our review revealed times when the daily and monthly dollar limits were exceeded as well as some items that should have been purchased under contract. See finding 2.

2. The Department of General Services did not follow the state purchasing rules when obtaining routine automotive services

Finding

The Department of General Services, Division of Motor Vehicle Management (MVM), did not follow state purchasing rules when obtaining routine automotive maintenance such as car washes, oil changes, and tires. These parts and services were often obtained without a contract or getting competitive bids. MVM owns and maintains most of the state's vehicles. The use of these vehicles is provided to the state's departments and agencies through dispatch operations (vehicles provided for short-term use) and fleet operations (vehicles that are permanently assigned). MVM is therefore responsible for the maintenance of these vehicles.

The state's purchasing procedures are approved by the Board of Standards and documented in the Department of General Services' *Agency Purchasing Procedures Manual*. Section 11.6 of that manual states:

Statu[t]es authorize Delegated Purchase bid procedures for use by all State agencies to purchase all commodities or services, provided the amount of a single purchase does not exceed \$2,000 (TCA Section 12-3-210) and the commodities or services are not covered by a Statewide or Agency Term Contract. . . . This Local Purchase Authority should not be used for purchases of a **recurring** nature where purchases by the Purchasing Division in larger volume will result in savings. When the purchase of items of less than \$2,000 is foreseen to be repetitive to the extent that total purchases of a specific type of commodity or service will exceed \$2,000 for a single calendar month, the using agency should procure the items through the Purchasing Division.

Routine automotive services such as oil changes, tire balance and rotation, radiator flush and fill, transmission service, topping off of fluids, and checking belts and hoses are obtained by vehicle operators at the time service is needed. For example, if a dispatch vehicle is assigned to an employee and an oil change becomes due, the employee is responsible for taking the vehicle in for an oil change. If the vendor recommends additional maintenance items that need to be done and the employee is waiting for the vehicle, the vendor will notify him/her of any additional maintenance that is needed. The employee may either obtain approval from MVM for the maintenance to be done at that point in time or be responsible for notifying MVM that the maintenance needs to be done. A review of expenditures from automotive garages, car wash vendors, and specialized accessory vendors (vendors who enhance state vehicles for a specific need, e.g., blue lights on law enforcement vehicles) indicated a large number of individual expenditures just under \$400. As a result, these services were purchased without obtaining

competitive bids. In addition, purchases in excess of \$2,000 per month were frequently made with these vendors and charged to the department's payment cards by the vehicle operators. Management of MVM views these purchases as separate purchasing events that comply with the purchasing rules. However, because purchases have exceeded \$2,000 per month, these purchases should be made through General Services' Purchasing Division on term contracts. Management takes the position that obtaining contracts for routine automotive services would not be cost beneficial to the state. However, significant amounts of expenditures of this nature are incurred. For example, \$75,906 was charged to the payment cards for one vendor alone for car washes during the period February 2002 to January 2004. This vendor provided a mobile car wash and went to various locations throughout the state. Vehicles from the Departments of Safety, Agriculture, Environment and Conservation, and the Tennessee Wildlife Resources Agency were brought to the various wash sites. We did additional work to determine if any fraudulent activity was occurring. We found no indication of fraud.

The purpose of the state's purchasing rules is to ensure that the state's agencies and departments enter into arrangements with firms that are in the best interest of the state. Not obtaining bids could result in the state paying more for the desired goods or services than is necessary.

Recommendation

The Commissioner of General Services should ensure that all purchases are made in compliance with state purchasing policies. The Commissioner along with the Directors of Purchasing and MVM should ensure that the department obtains routine automotive services in an open, competitive, and cost-efficient manner. The department may need to consider having multiple contracts for the same services in different regions of the state. The department should also consider the feasibility of moving the responsibility for obtaining these services from individuals back to the Department of General Services. The Director of Purchasing should regularly analyze payment card charges to determine if any unusual trends or charges are occurring. The director should investigate any unusual trends or charges that are noted.

Management's Comment

We concur in part. Motor Vehicle Management (MVM) always attempts to follow proper purchasing procedures including obtaining three bids in all areas that require bids. However, in many instances three bids cannot be obtained due to the unit (vehicle/equipment) being located in remote areas of Tennessee where limited vendors are available for a specific type of service needed.

MVM strives to insure that policies and procedure guidelines for repairs are followed by having agency contact meetings to answer any questions and review all procedures. In some cases, MVM is not aware of purchasing procedures not being followed until invoice is received by MVM to process. At this time, if the user agency is in violation of purchasing procedures and

authorization has not been given by MVM, the user agency is journal vouchered for the total amount of the invoice.

It is the intent of MVM to establish a guideline for department/agencies utilizing MVM vehicles and equipment for the purchase of parts and repair costs. The Division of Purchasing policies and procedures will be cited to insure the proper acquisition of parts and repairs. The guidelines will also state that any department/agency found to be in violation of these purchasing procedures will be held responsible for the cost of parts and repairs. MVM will no longer pay the invoice. It will be the responsibility of the department/agency to pay the invoice and journal voucher MVM for services rendered.

Also, MVM will be working with the Division of Purchasing in establishing contracts across the state wherever practical for vehicle and equipment repairs and service.

In addition, the Office of Administrative Services has established a section for procurement compliance for General Services' purchases. This section will review all payment card charges for trends and procedures.

SURPLUS PROPERTY INVENTORY

Our objective was to document internal controls over surplus property. We interviewed key department personnel and observed the Property Utilization Division's warehouse and inventory. We determined that controls over the surplus property inventory need improvement. See finding 3.

3. Controls over the inventory and sales of surplus property need improvement

Finding

Several weaknesses in controls over the inventory and sales of surplus property in the Property Utilization Division were noted through observation and discussion with personnel in the division. In addition, year-end inventory work completed by the Department of General Services' internal auditors corroborated some of the weaknesses we noted and revealed other weaknesses. The weaknesses noted include having no assurance that established procedures for the sale of surplus property are followed, no reconciliation of property sold to the funds collected, and no segregation of newly received items that were not yet recorded to the inventory records from items already included in the inventory records.

Items in the division are sold either to donors who come to the Nashville warehouse to make a purchase or through the on-line auction website GovDeals.com. Donors are representatives from government agencies or not-for-profit organizations who have been authorized to purchase warehouse items before the items are offered to the general public.

The division has established policies and procedures for the sale of surplus property. After warehouse employees verify that a donor is included on the list of qualifying donors, a warehouse employee will accompany the donor through the warehouse in search of items that the donor would like to purchase. After the donor selects the item(s) to purchase, the warehouse employee generates an invoice through the Property Utilization Division's inventory system for the purchase of state surplus property items or manually prepares an invoice for the purchase of federal surplus property items. The invoice states that payment for items should be made by check and sent to the Department of General Services' Office of Financial Management. However, donors occasionally pay for the items at the time of purchase. When this happens, an administrative assistant in the division's main office is to take the payment, which is either by check or cash, and is to issue a receipt/bill of sale through the Transaction Reporting and Control System (TRACS).

If an item is not purchased by a donor within 60 days of being placed in the warehouse inventory, it is placed on GovDeals.com for purchase by the general public. The website includes a picture of the item, description, inventory number, highest bid to date, bidder name, and time remaining for bids. At the end of the allotted time, the highest bidder is informed that he or she won the bid. The highest bidder then prints out the notification from GovDeals.com and takes it to the Property Utilization Division office at 6500 Centennial Boulevard in Nashville. The notification is given to an account tech at that office, who generates an invoice through TRACS for the item(s) being purchased. The invoice is then taken by the account tech to an administrative assistant, also in the Nashville office, who collects payment for the item(s) and generates a receipt/bill of sale through TRACS. The highest bidder then takes the invoice and receipt to the warehouse, where a warehouse employee retrieves the item(s). Bidders through GovDeals.com are not allowed access to the warehouse inventory.

The perpetual inventory listing for state surplus property is automatically updated when the invoice is generated by warehouse personnel in the case of approved donors. The perpetual inventory listing for federal surplus property has to be manually updated for any items sold. Both listings have to be manually updated for any purchases made through GovDeals.com.

The current procedures do not provide controls to identify exceptions to the normal procedures such as when donors pay for items at the time of purchase. If a donor pays cash for a purchase, collusion between the donor and warehouse employee could occur if the donor paid cash for the purchase directly to the warehouse employee and the employee kept the money. In this instance, an invoice might or might not be prepared. Even if money was kept by an employee and an invoice was prepared, the theft of funds would not be detected because invoices are not reconciled with the cash receipts. Another possibility of collusion could occur since no one compares the invoice to the items being removed from the warehouse other than the warehouse employee who is helping the donor. A donor could remove items from the warehouse that were not included on the invoice, by compensating the warehouse employee.

A physical inventory of surplus property is only performed at year-end. Therefore, lost or stolen property would possibly only be detected during the annual inventory. This makes determining who might have stolen items difficult, if not impossible. This could also lead

warehouse employees to assume that they could take items from the warehouse without getting caught.

The division had not manually updated the surplus property listings for items sold through the on-line auction website GovDeals.com during the audit period. Thus, several exceptions were noted between the actual counts and the perpetual records at the fiscal year-end. Some of the exceptions involved vehicles that were confiscated or surplused from the Departments of Safety and Transportation. Also, during the year-end inventory process, an auditor conducting a physical observation of the warehouse noticed that newly donated items that were not included on the inventory listing were placed in the same area as items that were included on the inventory. This could lead to the exclusion of these newer items from the perpetual inventory records.

Recommendation

Management of the Property Utilization Division should establish controls to ensure that all policies and procedures concerning purchases are followed. Management should consult with the GovDeals.com contractor to determine the feasibility of updating the perpetual inventory records through GovDeals.com when sales are made. If updating the inventory records through GovDeals.com is not feasible, then the Director of the Property Utilization Division needs to ensure that inventory records are updated manually in a timely manner. The Director of the Property Utilization Division should periodically reconcile the invoices with the funds collected. All items not immediately entered into the perpetual inventory records when received should be segregated from items already included on the inventory. The Director of Property Utilization should regularly assess the risk of fraud, waste, and abuse. The director should document the assessment process, the conclusions reached, and the steps necessary to address identified risks. In addition, the director should advise staff that no exceptions to the written policies will be allowed without written approval. The Division of State Audit should be advised of any problems noted.

Management's Comment

We concur. During the audit period, invoices were generated manually and inventory was adjusted manually after the item had been sold to donors or the general public. However, as of February 1, 2005, all property sold to eligible donors or the general public is accompanied by an automated invoice generated through our inventory systems. Upgrades to the Property Utilization Division's (PUD) inventory control systems ensure that when an invoice is prepared the associated items are removed from our inventory at the same time. For invoices and/or Bills of Sales (BOS) generated for public sales, the customer is given their copy of the invoice/BOS and a receipt that indicates the method of payment received and corresponding invoice/BOS number.

In addition, we also realize that property should be segregated to distinguish property included in the current annual inventory from property that is not included in the inventory. Currently, policies are being developed to ensure this property is segregated. Also, PUD is working with Systems to develop an integrated inventory control system to expedite the receiving and issuing process for property. We anticipate its completion January 1, 2006.

We would like to point out that PUD employees are not able to accompany authorized donees at all times while they are in the warehouse. This is due to our staffing levels. Most of PUD's property is too large to leave the warehouse without being noticed by the warehouse counter employee. Last year we had perimeter fencing and cameras installed to assist us with safeguarding the State's assets. Each time a customer enters/leaves the premises, a warehouse employee has to let them in and out of the gate, which also allows us to monitor what is being received and disbursed through the warehouse. Our warehouse employees ensure that all property is checked against the invoices before property leaves the warehouse. In addition, we are in the process of filling a position to assist us with reconciling internet auction invoices.

SEGREGATION OF DUTIES WITHIN THE TENNESSEE ON-LINE PURCHASING SYSTEM

Our objective in reviewing Tennessee On-Line Purchasing System (TOPS) access was to determine whether the duties granted to individuals with both TOPS access and State of Tennessee Accounting and Reporting System (STARS) access were appropriately segregated.

We obtained user access information from both TOPS and STARS to identify the individuals who had the ability to initiate payments in STARS and who also had the abilities in TOPS to initiate, enter, and approve purchase requisitions; enter and approve purchase orders; record receipt of purchased items; and approve the invoice for payment. Based on our work, we determined duties were not appropriately segregated within TOPS and that 16 individuals had the aforementioned levels of access. See finding 4.

4. The state does not adequately limit access to the Tennessee On-Line Purchasing System

Finding

The State of Tennessee has inadequate controls over the access levels of users of the Tennessee On-Line Purchasing System (TOPS) who also have access to the State of Tennessee Accounting and Reporting System (STARS). State agencies utilize TOPS to initiate and process most purchases. STARS is the State of Tennessee's centralized accounting and general ledger system. STARS records all revenues and disbursements as well as processing other accounting entries at various levels of detail. State agencies access STARS through direct data entry or by interface from agency subsystems. A list of employees that had access to both TOPS and STARS was obtained, and certain capabilities were noted that caused inadequate segregation of duties.

Of 539 persons with some level of TOPS access and STARS write access, 16 individuals had levels of access that clearly created inadequate segregation of duties. These individuals could initiate, enter, and approve purchase requisitions; enter and approve purchase orders; record receipt of purchased items; approve the invoice for payment; and initiate the payment in STARS. In such a situation, the only documented approval by other individuals would be the signatures on the disbursement voucher sent to the Department of Finance and Administration (F&A). F&A requires two signatures to be present on the disbursement vouchers, but since such vouchers often include multiple transactions, the possibility is great that a fraudulent purchase initiated by one of the 16 individuals might not be detected.

Inadequate management controls over system access allow individuals to circumvent the normal review and approval process. This could significantly increase the potential for errors and fraud to occur and to go undetected. An individual with this level of access could process an improper order from the initiation of a purchase requisition to the recording of the payment without detection.

Recommendation

The Commissioner of General Services should ensure that no one individual has the ability to initiate, receive, and approve payment for any purchases for the State of Tennessee. The access of such employees should be immediately modified. Management should assess the risks of fraud within TOPS. The written assessment should include development of appropriate controls to offset the identified risks. Any problems identified in the risk assessment should be reported to the Division of State Audit.

Management's Comment

We concur in part. The Division of Purchasing system administrator grants levels of access to TOPS dependent upon completed, approved security forms from each department and agency. We recognize there is a need for proper segregation of duties. We also recognize that some smaller agencies do not have adequate staffing to properly segregate duties. In the past, we have contacted those departments and agencies for an explanation where it was felt access was being requested.

We are currently reviewing the TOPS security database for those users that have excess capability. We will then require a letter of justification from the agency head for any excess capability.

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, and June 30, 2002, 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, and June 30, 2002, responsibility letters, the December 31, 2003, internal accounting and administrative control report, and supporting documentation to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration, supporting documentation was properly maintained, and procedures used in compiling report information were in accordance with guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. Corrective actions have been taken on the weaknesses noted.

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 Department of General Services filed its compliance reports and implementation plans on June 30, 2003, and June 30, 2002.

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 Tennessee Title VI Compliance Commission is responsible 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

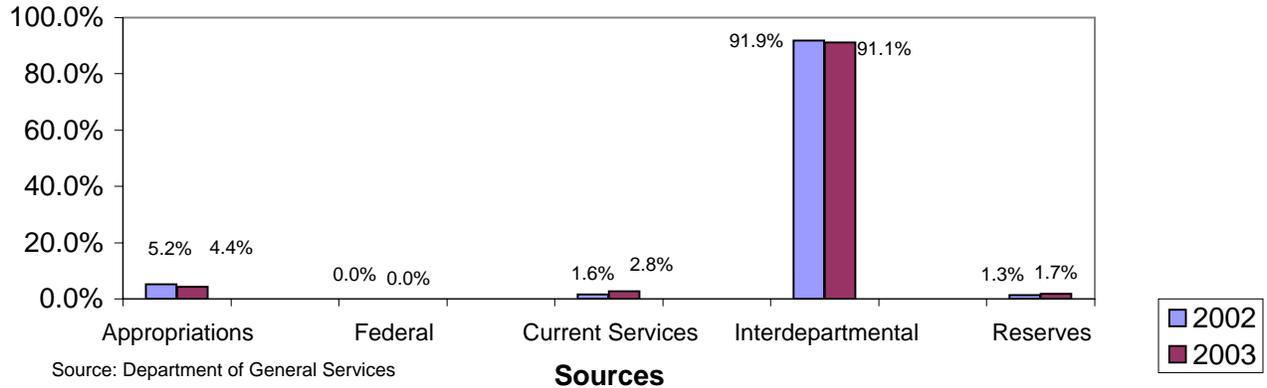
DIVISIONS AND ALLOTMENT CODES

Department of General Services' divisions and allotment codes:

- 321.01 Administration
- 321.02 Postal Services
- 321.04 Property Utilization
- 321.06 Motor Vehicle Management
- 321.07 Property Management
- 321.09 Printing
- 321.10 Purchasing
- 321.15 Systems Management
- 321.17 Records Management
- 321.18 Central Stores
- 321.19 Comprehensive Food Services Program
- 501.01 Facilities Revolving Fund – Building Maintenance
- 501.02 Facilities Revolving Fund – Project Maintenance

Funding Sources

Years Ended June 30, 2003, and June 30, 2002 (Unaudited)



Expenditures by Allotment and Division

Years Ended June 30, 2003, and June 30, 2002 (Unaudited)

