

**Tennessee Bureau of Investigation**

**May 2004**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

May 11, 2004

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. David Griswold, Interim Director  
Tennessee Bureau of Investigation  
901 R. S. Gass Boulevard  
Nashville, Tennessee 37216

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Bureau of Investigation for the period July 1, 2000, through March 31, 2004.

The review of internal control and compliance with laws, regulations, and provisions of contract or grant agreements resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/mb  
04/065



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

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March 23, 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 Tennessee Bureau of Investigation for the period July 1, 2000, through March 31, 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 Tennessee Bureau of Investigation's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Bureau of Investigation 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 resulted in no audit findings. We have reported other less significant matters involving the bureau's internal control to the Tennessee Bureau of Investigation'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 Bureau of Investigation**  
May 2004

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## AUDIT SCOPE

We have audited the Tennessee Bureau of Investigation for the period July 1, 2000, through March 31, 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 the Confidential Bank Account and Show Money, Revenue, Expenditures, Equipment, Deferred Revenue, Information Systems, the Uniform Crime Report, the Financial Integrity Act, and Department of Finance and Administration Policy 22. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

The audit report contains no findings.

# Financial and Compliance Audit Tennessee Bureau of Investigation

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## TABLE OF CONTENTS

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	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	2
<b>PRIOR AUDIT FINDINGS</b>	2
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	4
Confidential Bank Account and Show Money	4
Revenue	5
Expenditures	6
Equipment	7
Deferred Revenue	8
Information Systems	8
Uniform Crime Report	9
Financial Integrity Act	9
Department of Finance and Administration Policy 22, “Subrecipient Monitoring”	10
<b>OBSERVATIONS AND COMMENTS</b>	11
Title VI of the Civil Rights Act of 1964	11
<b>APPENDIX</b>	11
Allotment Code	11

# Financial and Compliance Audit Tennessee Bureau of Investigation

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Bureau of Investigation. 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 statement of the Tennessee Bureau of Investigation (TBI) is “That guilt shall not escape, nor innocence suffer.” In order to fulfill this mission, the bureau has five major divisions: Criminal Investigation, Forensic Services, Drug Investigation, Information Systems, and Administrative Services.

The Criminal Investigation Division is responsible for providing professional expertise in the investigation of crimes and criminal activity and for responding to emergencies and unusual events or incidents. The Criminal Investigation Division is organized into three units: the field Investigation Unit, the Criminal Intelligence Unit, and the Medicaid Fraud Control Unit.

The Forensic Services Division is responsible for maintaining up-to-date forensic laboratories for processing and analyzing biological, chemical, and physical evidence in criminal cases. The Forensic Services Division comprises a central laboratory in Nashville and two regional laboratories in Memphis and Knoxville.

The Drug Investigation Division is responsible for investigating, gathering evidence, and assisting in the prosecution of criminal offenses involving controlled substances, narcotics, and other drugs. The Drug Investigation Division is organized into four units in East Tennessee, Middle Tennessee, West Tennessee, and Upper East Tennessee.

The Information Systems Division consists of the Identification Services Section and the Computer Services Section and has the responsibility to oversee crime information functions of the TBI and the entire Tennessee criminal justice community. The Tennessee Bureau of Investigation received National Incident Based Reporting System (NIBRS) certification on June 30, 1998, from the Federal Bureau of Investigation.

The Administrative Services Division is responsible for providing technical and administrative support to all areas of the TBI. The Administrative Services Division is divided into the Fiscal Office, Personnel Office, and Internal Audit Office.

In November 1997, the Tennessee Bureau of Investigation received its reaccreditation by the Commission on Accreditation for Law Enforcement Agencies, Inc. TBI is one of five state criminal investigation agencies in the nation to achieve accreditation.

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

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## **AUDIT SCOPE**

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We have audited the Tennessee Bureau of Investigation for the period July 1, 2000, through March 31, 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 the confidential bank account and show money, revenue, expenditures, equipment, deferred revenue, information systems, the Uniform Crime Report, the Financial Integrity Act, and Department of Finance and Administration Policy 22. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Tennessee Bureau of Investigation follows certain executive branch policies and procedures including those prescribed by the Department of Finance and Administration and approved by the Comptroller of the Treasury. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration.

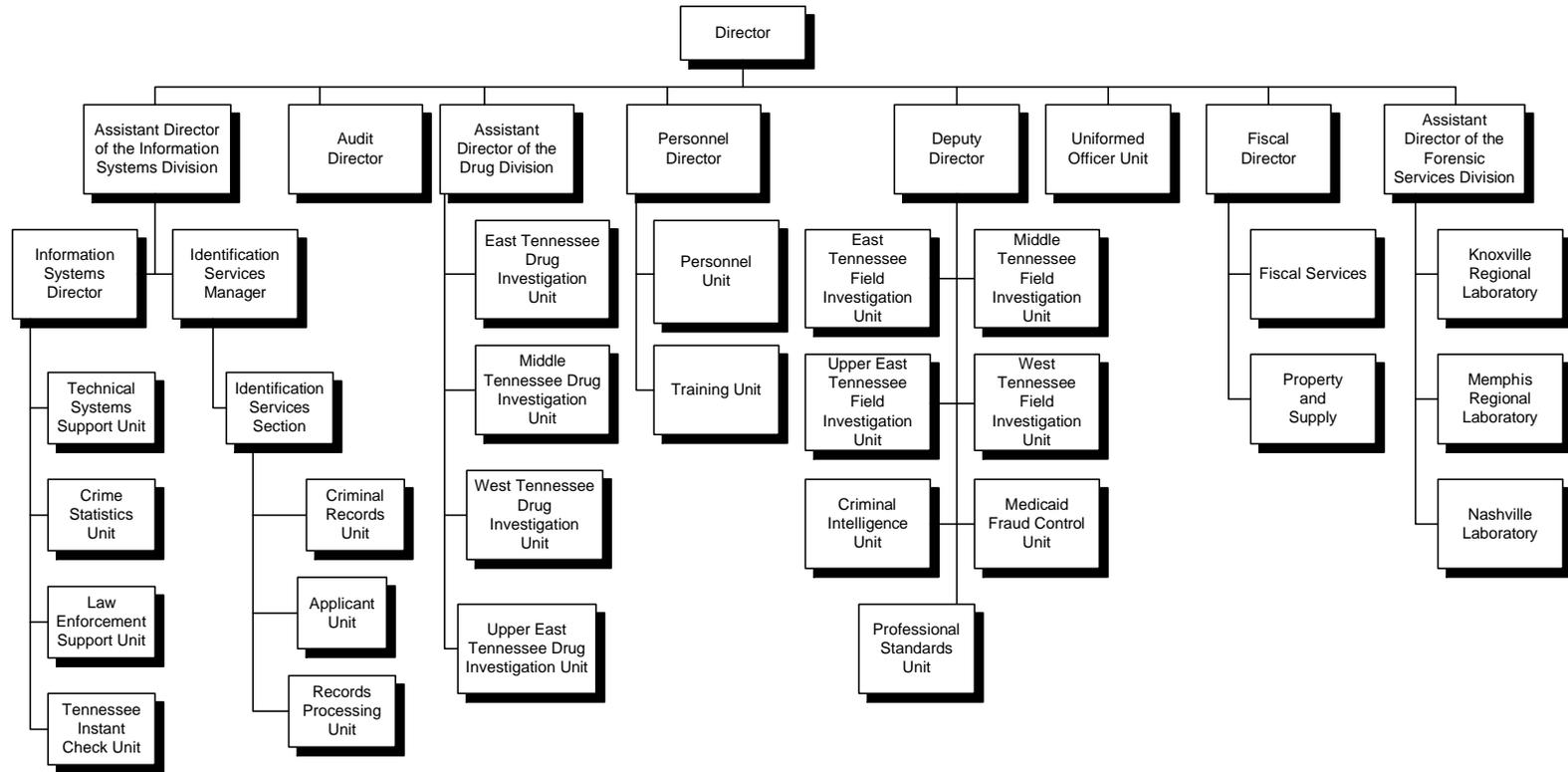
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## **PRIOR AUDIT FINDINGS**

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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 Bureau of Investigation filed its report

# Tennessee Bureau of Investigation Organization Chart



with the Department of Audit on January 4, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the Tennessee Bureau of Investigation has corrected previous audit findings concerning the Financial Integrity Act, equipment leases, and office space leases.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **CONFIDENTIAL BANK ACCOUNT AND SHOW MONEY**

The objectives of our review of the confidential bank account and show money controls and procedures were to determine whether

- the controls over the confidential bank account and the issuance of show money were adequate,
- the bureau complied with the Department of Finance and Administration's policies and procedures for the confidential bank account and for show money transactions,
- duties assigned to employees managing the bank account were properly segregated,
- confidential bank account disbursements were appropriately handled, and
- bank reconciliations were prepared properly.

We discussed with TBI officials the purpose and nature of the confidential bank account and the duties and responsibilities involved. We reviewed bank statements to determine if the account balance at any time during the audit period exceeded the authorized amount. We reviewed the applicable policies and procedures and the responsibilities of the individuals involved. We also obtained from management a list of persons authorized to sign checks and make withdrawals to help determine if adequate segregation of duties existed. We reviewed the checkbooks and receipt books for the period July 1, 2000, through December 31, 2003. We investigated any missing receipts or checks and determined if the checkbooks and receipt books were used in numerical order.

We selected a nonstatistical sample of expenditures made from the confidential fund account to determine if the expenditures were for allowable purposes and were properly approved. We determined if the amount could be traced to an approved Confidential Fund Report, the expenditure was itemized on the proper form, documentation was on file if the agent had transferred confidential funds to or from another agent, and the expenditure could be traced or reconciled to the agent's folder or case file, if applicable.

In order to determine if the bank reconciliations were prepared properly, we obtained all bank statements and reconciliations for the period July 1, 2000, through December 31, 2003, to determine if the reconciliations included a detailed listing of outstanding checks showing the check number, date, payee, and amount. We scheduled all checks which were outstanding on the reconciliation and any deposits in transit to determine the date when the checks were cleared and when the deposits were recorded in the bank. In order to determine if payments made by the state to reimburse the account were being accounted for properly, we compared the listing of all payments made by the state to reimburse the confidential funds account to the bank deposits.

We discussed with management the control procedures over the issuance of “flash rolls” or “show money” and determined if these procedures were in accordance with the Department of Finance and Administration’s policies and procedures. We obtained a listing of all “show money” transactions for the period July 1, 2000, through January 31, 2004, and tested each to determine if the amount of the transaction did not exceed the maximum amount specified in the regulations, the total time from the receipt of the cash to its later deposit did not exceed the required number of days, the “show money” request form was properly completed before the money was received, and the documentation related to the payment was proper.

We concluded as a result of this testwork that the controls over the confidential bank account and the issuance of show money were adequate, and the bureau complied with F&A policies. Segregation of duties and related compensating controls appeared appropriate. Also, confidential bank account disbursements and reconciliations were handled properly.

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## **REVENUE**

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

- management controls over cash receipts and accounts receivable were adequate;
- duties involved in the processing of revenue and accounts receivable were adequately segregated;
- revenue transactions were properly approved, recorded, and reconciled in the accounting system; and
- write-offs of receivables complied with applicable state laws and regulations.

We discussed with management the internal controls that were in place regarding revenue and accounts receivable to obtain an understanding of the bureau’s procedures and to determine if duties were properly segregated. We selected a nonstatistical sample of revenue transactions for the period July 1, 2000, through December 31, 2003, to determine whether revenue

transactions were properly approved, recorded, and reconciled. We also obtained a listing of all accounts receivable that have been written off and determined if they complied with the bureau's and the state's write-off procedures.

As a result of this testwork, we concluded that management controls, including segregation of duties, over cash receipts and accounts receivable were adequate. We also determined that revenue transactions were properly approved, recorded, and reconciled in the accounting system, and that write-offs of receivables complied with applicable laws and regulations.

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## **EXPENDITURES**

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

- management controls over expenditures and accounts payable were adequate;
- duties involved in the processing of expenditures and accounts payable were adequately segregated;
- expenditures were properly supported, recorded, and approved; and
- expenditures complied with applicable state laws and regulations.

We interviewed key personnel to gain an understanding of management controls and other relevant procedures. We then selected a nonstatistical sample from the population of expenditures charged to professional and administrative services, supplies, and rentals for the period July 1, 2000, through November 30, 2003. We examined the documentation related to these expenditures to determine if the expenditures were properly supported, recorded, and approved, and whether expenditures complied with applicable laws and regulations. In addition, we scanned the voucher registers and compared the approval signatures to the authorized signatures listing that was sent to the Department of Finance and Administration's Division of Accounts to determine if the registers had been properly approved. We reviewed reconciliations to determine if the STARS reports were being reconciled with the voucher registers or batch information.

Based on our review and testwork, we found that management controls over expenditures and accounts payable were appropriate and duties involved in the processing of expenditures and accounts payable were adequately segregated. Expenditures were properly supported, recorded, and approved, and the transactions complied with applicable laws and regulations.

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## EQUIPMENT

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

- controls over bureau property and confiscated property were adequate,
- confiscated property was properly safeguarded,
- property leased from the Department of Finance and Administration's Office for Information Resources (OIR) was properly safeguarded,
- the total cost of capitalized equipment shown in POST that was acquired during the audit period reconciled to the total equipment expenditures reported in the State of Tennessee Accounting and Reporting System (STARS), and
- the information in POST for bureau equipment was accurate.

We interviewed key personnel to gain an understanding of internal controls. We reviewed with management the procedures used for confiscated money and property, including procedures for their disposal. We reviewed the location of confiscated property to determine the adequacy of access limitations. In addition, we obtained a listing of all confiscated property being stored at TBI as of January 22, 2004. From this listing, we selected a nonstatistical sample of items and attempted to find the items to verify that the information about the items was accurate.

We obtained a current listing of equipment leased from OIR. The listing was reviewed and compared to OIR's Billing Report. In addition, we scheduled all equipment items in POST costing at least \$5,000 that were acquired during the year ended June 30, 2003, and we totaled the cost of the items. We obtained a listing of all STARS expenditures charged to equipment during fiscal year 2003 and reconciled this total to the total of equipment in POST with an acquisition date within the same period. We also obtained from the Department of General Services a January 12, 2004, listing of all equipment belonging to the bureau and selected the 10 most expensive pieces of equipment to test. In addition, we selected 15 additional items. For each sample piece of equipment, we determined the location of the equipment, the existence of a state tag on the equipment, and the accuracy of the information pertaining to the equipment in POST including the location code, serial number, tag number, and cost.

As a result of this testwork, we concluded that controls over property were adequate, and confiscated property was properly safeguarded. The bureau no longer has leased equipment from OIR. We also determined that equipment purchases made through STARS reconciled to the equipment items added to POST. Information recorded in POST for bureau equipment was accurate.

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## **DEFERRED REVENUE**

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

- the funds received from the federal government were accounted for properly, and
- controls over the use of funds were proper and were operating.

We discussed with management the purpose of the deferred revenue account, specifically the origin of the funds, the reason why they were considered deferred revenue instead of current revenue, the intended use of the funds, the documentation kept to support the receipt of the funds, the method of transfer that is used to transfer the funds to the account, the type of account used to hold the funds, the persons authorized to request the funds, and the person authorized to approve the request. We used this information to determine if there were any internal control weaknesses. We also obtained a schedule of all transactions involving the deferred revenue account for the period July 1, 2000, through December 31, 2003, and tested a nonstatistical sample of these transactions to determine if there was adequate documentation and if stated controls were in place.

As a result of this testwork, we concluded that the funds received from the federal government were accounted for properly, and controls over the use of the funds were proper and operating.

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## **INFORMATION SYSTEMS**

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

- controls over the use of and access to the bureau's computer systems were adequate,
- the bureau's business disaster recovery plan was sufficiently detailed, and
- off-site backup procedures were in place.

We discussed with management the general computer controls that were in place. We reviewed the Information Systems Management (ISM) group's three-year plan to identify proposed modifications to existing applications or equipment and any new systems under development, and we determined if the Management Advisory Committee (MAC) met regularly during the audit period. To review employees' access, we obtained a list of employees authorized to access various computer applications to determine if each employee was still employed by the bureau, if the employee's duties required the level of access given, and if the

employee's level of access did not create an inadequate segregation of duties. In addition, we reviewed the bureau's current business recovery plan and observed off-site backup procedures.

As a result of this testwork, we concluded that controls over the use of and access to the bureau's computer systems were adequate. We also determined that the bureau's business disaster recovery plan was sufficiently detailed, and off-site backup procedures were in place.

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## **UNIFORM CRIME REPORT**

The objectives of our review of the Uniform Crime Report controls and procedures were to determine whether

- the bureau complied with applicable laws and regulations, and
- management controls were adequate.

We reviewed Section 38-10-104, *Tennessee Code Annotated*, to gain an understanding of the requirements regarding the Uniform Crime Report and discussed with management the procedures in place to ensure compliance. We also discussed with management the procedures used to compile the annual report and determined the adequacy of the procedures. We reviewed a nonstatistical sample of reports from April 2001 through December 2003 received from the cities and counties across the state to determine if the follow-up efforts by the bureau were adequate.

As a result of this testwork, we concluded that applicable laws and regulations were complied with and management controls were adequate.

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## **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 Bureau'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 bureau’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 bureau’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. 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*. No corrective actions were necessary.

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**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22, “SUBRECIPIENT MONITORING”**

Department of Finance and Administration Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. Our objectives focused on determining whether

- the bureau identified its subrecipients, and
- the bureau submitted to the Department of Finance and Administration the required subrecipient monitoring plan.

We interviewed key personnel to gain an understanding of the bureau’s procedures and controls concerning Policy 22. We obtained a listing of all expenditures charged to grants and subsidies and examined a grant agreement to determine subrecipients. We determined that the bureau properly identified its subrecipient and submitted the required subrecipient monitoring plan.

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## OBSERVATIONS AND COMMENTS

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### TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Tennessee Bureau of Investigation filed its compliance reports and implementation plans on June 24, 2001; June 28, 2002; and June 30, 2003.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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### ALLOTMENT CODE

The Tennessee Bureau of Investigation's allotment code is 348.00.