

Office of Legislative Administration

April 2005

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

April 19, 2005

The Honorable John S. Wilder
Speaker of the Senate
and
The Honorable Jimmy Naifeh
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Connie Frederick, Executive Director
Office of Legislative Administration
War Memorial Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of Legislative Administration for the period July 1, 2001, through March 31, 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/mb
04/066



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March 31, 2005

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 Office of Legislative Administration for the period July 1, 2001, 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 Office of Legislative Administration's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Office of Legislative Administration 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 office'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 office's internal control and instances of noncompliance to the Office of Legislative Administration'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
Office of Legislative Administration
April 2005

AUDIT SCOPE

We have audited the Office of Legislative Administration for the period July 1, 2001, 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 equipment, cash receipts, payroll, and expenditures. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Lost and Stolen Equipment Not Reported Timely to the Comptroller's Office

Seven equipment items were stolen or destroyed during the audit period and were not reported to the Comptroller's Office within a month of the loss (page 9).

The Office of Legislative Administration Does Not Have Proper Controls Over the Purchasing Function

The office does not always approve purchases in advance, use purchase orders, or document that the lowest purchase price was obtained (page 7).

Controls Over Supplies Inventory Are Inadequate

The office does not maintain a perpetual inventory system, does not perform regular physical inventories of supplies, and is unable to properly account for supplies inventory usage (page 6).

The Office Did Not Have Controls Over and Did Not Monitor the State's Federal Express Account

The Office of Legislative Administration paid for Federal Express shipments that were not related to operating state government or conducting state business (page 4).

Financial and Compliance Audit Office of Legislative Administration

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Financial and Compliance Audit Office of Legislative Administration

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of Legislative Administration. 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

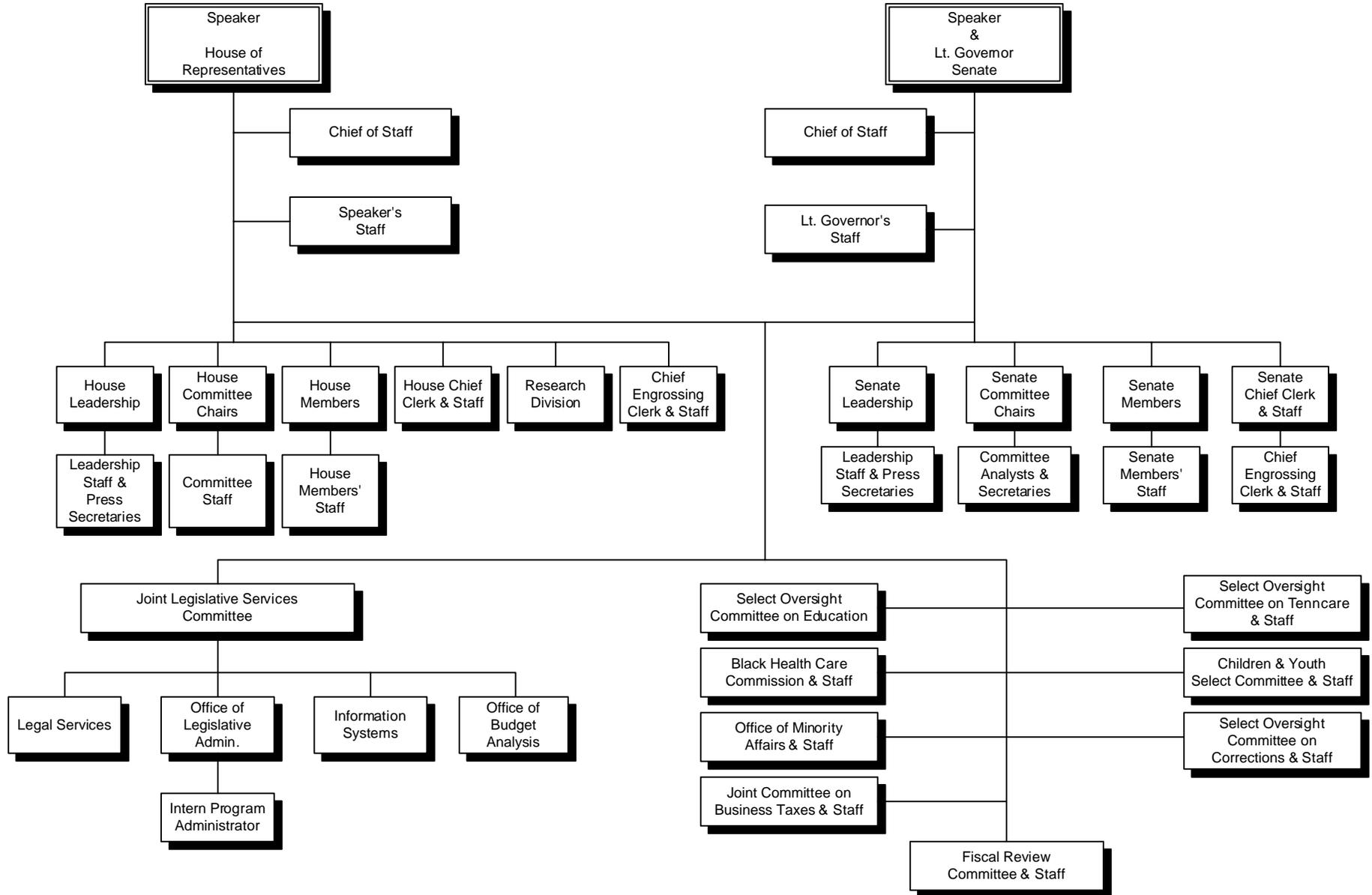
The Office of Legislative Administration processes the expenditures and revenues of the General Assembly and its committees, commissions, and support agencies, except for the Fiscal Review Committee. Legislative Administration is also responsible for human resource issues and staff administration including the Legislative Intern Program.

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

AUDIT SCOPE

We have audited the Office of Legislative Administration for the period July 1, 2001, through March 31, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts and grant agreements in the areas of equipment, cash receipts, payroll, and expenditures. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Legislature Organization Chart



The Office of Legislative Administration is in the legislative branch of state government. The office has chosen to follow 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.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Office of Legislative Administration had no prior audit findings.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

The objectives of the expenditures testwork were to determine whether

- the cash disbursement procedures described by management provide adequate controls,
- access to the State of Tennessee Accounting and Reporting System (STARS) and the Tennessee On-Line Purchasing System (TOPS) was properly restricted and did not create an inadequate segregation of duties,
- large expenditures or expenditures with unusual classifications were in compliance with applicable laws and regulations and properly classified,
- contract expenditures were properly approved and in compliance with the terms of the contract and applicable laws and regulations, and
- printing and communications expenditures were properly approved and in compliance with applicable laws and regulations.

We interviewed key personnel to gain an understanding of the procedures used by the office to process expenditures, and we assessed the adequacy of the procedures. We obtained from the office a current listing of all persons with access to STARS and from the Department of General Services, a current listing of all persons with access to TOPS. We then determined if

the persons were active employees, had job duties that required this level of access, and had a level of access that created an inadequate segregation of duties. We tested a sample of all expenditures that exceeded \$2,500, excluding payroll; and travel expenditures that exceeded \$500, for compliance with applicable laws and regulations and proper classification. Contract expenditures from the sample of expenditures were tested to determine if they were properly approved and in compliance with the terms of the contract and applicable laws and regulations. We tested a sample of printing and communications expenditures to determine if they were properly approved and in compliance with applicable laws and regulations. Testwork included determining if the expenditures were deducted from the legislators' annual allotments.

Based on our interviews and testwork, we concluded the following:

- the cash disbursement procedures described by management were not adequate to ensure effective internal controls over the purchasing and inventory functions, as discussed in findings 2 and 3;
- access to STARS and TOPS was properly restricted, and segregation of duties was adequate;
- large expenditures or expenditures with unusual classifications were in compliance with applicable laws and regulations and properly classified;
- contract expenditures were properly approved and in compliance with the terms of the contract and applicable laws and regulations; and
- printing and communications expenditures were not always properly approved or in compliance with applicable laws and regulations, as discussed in finding 1.

1. The Office of Legislative Administration did not have controls over and did not properly monitor the use of the state's Federal Express account

Finding

The Office of Legislative Administration did not properly monitor the use of the state's Federal Express account, resulting in the state paying for Federal Express shipments that were not related to operating state government or conducting state business.

Based on discussions with the Executive Director of the Office of Legislative Administration, the office is responsible for processing bills from Federal Express and ensuring that the charges are for state business. However, during the audit period, the staff's oversight of the Federal Express expenditures consisted only of ensuring that all charges were made by or on behalf of a member of the General Assembly and that the member's annual financial allotment was properly reduced. Office of Legislative Administration staff made no effort to determine if the Federal Express shipments were for state business. All members and their staff had access to the state's Federal Express account number and could initiate shipments through Federal Express at will. The Office of Legislative Administration, in many cases, did not know about the shipments until it received the bill from Federal Express.

According to state law, each year beginning in November, each state senator is allotted \$6,832 and each House member is allotted \$2,016 to spend on printing and postage costs related to communication with or on behalf of constituents. The members' financial allotment can be spent on flags, picture framing, stamps, newsletters to constituents, and Federal Express shipments.

Without adequate controls over the use of the Federal Express account, misuse or abuse is possible.

Recommendation

The Speakers of the House and Senate should issue a directive to all members of the General Assembly which explains in detail the proper use of the state's Federal Express account. The members should be informed that shipments through Federal Express are authorized for state business purposes only.

Should it become necessary for members to utilize Federal Express while away from the state capitol and the Office of Legislative Administration, the shipping charges should be at the members' expense and subsequently reimbursed by the state if deemed appropriate.

The Executive Director of the Office of Legislative Administration should develop written policies and procedures and forms as necessary to document and control Federal Express shipments. In addition, members should be required to reimburse the state for any unauthorized shipments.

Management's Comment

We concur that the Office of Legislative Administration did not have adequate controls over the use of the state's Federal Express account. The Joint Legislative Services Committee, chaired by the Speaker of the House and the Lieutenant Governor, have adopted a policy restricting the use of the state's Federal Express account for state business only and have established strict procedures for using this shipping service. All Federal Express shipments must originate from the Office of Legislative Administration. Access to Federal Express Airbills is limited to the Director and limited designated staff. Original airbills must remain in the Office of Legislative Administration. Members and staff using this shipping service must complete entries in the Federal Express Shipping Account log showing to whom shipments are being made and certifying that shipments are state business. All shipments made from remote locations must be done so at the Members' expense. Members may apply for reimbursement if appropriate. Reimbursements for all shipping services which might have been questionable during this audit period have been received, documented, and deposited.

Auditor's Comment

We reviewed the steps taken to evaluate the questioned costs and subsequent reimbursements related to unauthorized shipments. Management's evaluation was adequate and reimbursements totaling \$2,643.14 were appropriately received, documented, and deposited.

Subsequent to audit fieldwork, the Executive Director of the Office of Legislative Administration developed additional controls and revised the process by which Members of the General Assembly use the state's Federal Express account. Based on our discussions with the Executive Director and our review of the proposed process, the Office of Legislative Administration has taken appropriate action to address control weaknesses related to the state's shipping service. The Executive Director should ensure the newly established controls and revised process are in place to prevent further abuse or misuse. The Executive Director should continue to monitor the process to ensure shipments are authorized for state business and that all appropriate procedures are followed.

2. Controls over supplies inventory are inadequate

Finding

The Office of Legislative Administration does not maintain a perpetual inventory system and does not perform regular physical inventories of its supplies inventory. Therefore, the office is unable to properly account for supplies inventory usage.

An observation of the Office of Legislative Administration's supply room revealed an inventory of office supply items and various United States and Tennessee flags. The inventory is valued at an estimated cost between \$2,000 and \$6,000 at any point in time.

Based on discussions and evaluation of controls, testwork revealed that when supplies are requested by staff or members of the General Assembly, the supply room custodian records each issuance from the supply inventory into a log book that shows a description of the item, the date, the name of the person who picked up the item, and the name of the legislator that the item was for. When the custodian notices that the quantity of a particular item is low, he contacts the procurement officer, who purchases supplies to replenish the supplies inventory. However, the custodian does not record the receipt of supply items and does not maintain records to account for the balance that should be on hand. In addition, management does not perform an annual physical inventory of items on hand.

If a perpetual inventory is not maintained and if management does not periodically perform a physical inventory, thefts of supplies may occur and not be detected.

Recommendation

The Executive Director of the Office of Legislative Administration should instruct the supply room custodian to take a physical inventory. This physical inventory should include someone who does not normally work in this area. A perpetual inventory system should be established so that the amounts actually on hand can be easily compared to the balance that should be on hand. In the future, physical inventories should be taken at least once per year and compared with amounts on the perpetual inventory system.

Management's Comment

We concur that the Office of Legislative Administration did not have adequate controls over the supply room and its content. The Director of Legislative Administration has been instructed to purchase a bar code system for the purpose of establishing a perpetual inventory control system and to assign a staff person not assigned any responsibilities for purchasing or distributing supplies to perform a physical inventory of supplies annually. The Director of Legislative Administration has limited staff authorized to distribute supplies. Staff authorized to distribute supplies do not have responsibility for purchasing or conducting the physical inventory.

3. The Office of Legislative Administration should improve controls over purchasing

Finding

Management of the Office of Legislative Administration has not always followed effective internal controls when purchasing goods and services. The evaluation of the control environment and the other components of internal control related to the purchasing function has revealed the following problems.

- Purchases are often not approved in advance.
- Purchase requisitions are not used.
- Purchase orders are only issued if the vendor requests them.
- The Tennessee On-Line Purchasing System (TOPS), which includes a standard state purchase order, is not used.
- The purchase order used by the Office of Legislative Administration does not have a pre-printed number, which could result in unauthorized purchases. Without prenumbered purchase orders, staff is not able to account for all purchase orders, and as a result, a purchase order could be used more than once.
- The Office of Legislative Administration does not maintain documentation that purchases are made at the lowest price. Vendors are sometimes selected on the basis

of how quickly they can deliver goods or services or based on alleged quality. As a result, the office may not receive the lowest possible cost for the goods or services.

Without adequate controls over purchases, there is an increased risk that unauthorized purchases could occur and go undetected.

Recommendation

The Executive Director, under the supervision of the Speakers of the Senate and House, should ensure that effective controls are followed when purchasing goods and services. The Executive Director should revise current policies and procedures to include requirements that purchases, whenever possible, be requested in advance using requisitions. Policies and procedures should also include provisions for obtaining purchases at the lowest prices whenever possible, adequate segregation of duties, and appropriate receipting of goods and services. Management should document approval of the purchases, and TOPS should be used whenever possible.

Management's Comment

We concur that the Office of Legislative Administration should review and make recommendations for changes that will improve the controls over purchasing to ensure that the goods and services procured for the operation of the legislature are done so at the lowest and/or a competitive price. The Director of the Office of Legislative Administration approves all purchases of items within the scope of authority in advance. No items are purchased without the approval of the Director. The Director will review and when possible and practicable use the Tennessee On-Line Purchasing System.

The Director of Administration instructs staff to research and select vendors who can provide the most cost efficient products provided that timely response can be expected and quality of products is sufficient. The Director will take reasonable steps to document such research for vendor files. The Director has directed staff to develop an electronic purchase order system which will assign purchase order numbers in a database which cannot be modified by authorized users. Once established, the ability to use a purchase order more than once or make unauthorized purchases will be removed.

The duties of the staff are fully segregated, which ensures that all purchases, receipt of goods and approval of the payment of invoices are adequately controlled.

EQUIPMENT

The objectives of the equipment testwork were to determine whether

- the procedures described by management to account for and safeguard equipment were adequate;

- the office's property and equipment as listed in the Property of the State of Tennessee system (POST) represented an accurate and complete listing of assets on hand;
- additions to POST during the fiscal year ended June 30, 2003, reconciled to expenditures charged to equipment in the State of Tennessee Accounting and Reporting System (STARS) during the same period; and
- lost or stolen equipment was properly reported to the Office of the Comptroller and deleted from POST.

We interviewed key personnel to gain an understanding of the procedures used to account for and safeguard equipment and then assessed the adequacy of the procedures. We obtained from the Department of General Services a current listing of all equipment assigned to the Office of Legislative Administration which cost at least \$1,500. We tested all equipment that cost at least \$5,000 and a sample of the remaining equipment to determine if the equipment could be located and that the information about the equipment in POST was accurate. Using this same listing, we identified all equipment that cost at least \$5,000 and had an acquisition date during the fiscal year ended June 30, 2003. We obtained from State Audit's Information Systems section a schedule of all transactions charged to equipment in STARS and determined if this schedule reconciled to POST. We obtained from the office's correspondence to the Comptroller of the Treasury a list of equipment reported as lost or stolen since July 1, 2001, and determined if the equipment was properly reported to the Office of the Comptroller and deleted from POST.

Based on our interviews and testwork, we determined that

- the procedures described by management to account for and safeguard equipment are adequate;
- the office's property and equipment listed in the POST system represented an accurate and complete listing of assets on hand;
- additions to POST during the fiscal year ended June 30, 2003, reconciled to expenditures charged to equipment in STARS during the same period; and
- lost or stolen equipment was not always properly reported to the Office of the Comptroller and deleted from POST. This is discussed further in finding 4.

4. The Office of Legislative Administration did not report lost or stolen equipment to the Comptroller's office timely

Finding

The Office of Legislative Administration did not notify the Office of the Comptroller of the Treasury of lost or stolen equipment timely, as required by state law. During the period July 1, 2001, through March 31, 2004, the Office of Legislative Administration has had nine laptop

computers valued at \$26,081.82 stolen or destroyed. Seven of these losses were not reported to the Comptroller's Office within a month of the loss. The delay ranged from 36 days to 214 days.

Section 8-19-501, *Tennessee Code Annotated*, states,

It shall be the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.

The Office also has a written policy which states the following:

If a member takes the laptop computer off state property in Nashville on which legislative facilities are located, the member is personally liable for any loss or theft of the laptop computer.

Testwork revealed that the Office of Legislative Administration has not enforced this policy when applicable.

Failure to report losses to the Comptroller of the Treasury could result in the untimely follow-up of lost or stolen equipment.

Recommendation

The Executive Director should ensure that lost and stolen equipment is reported to the Comptroller of the Treasury as soon as possible. The Executive Director should also enforce internal policies governing losses of equipment.

Management's Comment

We concur that the Office of Legislative Administration did not report lost or stolen equipment to the Comptroller's office timely. The responsibility for inventory and the reporting of lost or stolen equipment was removed from the Property Supervisor prior to this audit. This responsibility now rests with the Administrative and Fiscal Analyst. All equipment has been properly inventoried and is at its proper location. Further, entries into the POST system have been completed. As a result of the reassignment of these duties, we have corrected this process. The Director of Legislative Information Services will be directed to revise the policy regarding laptops assigned to Members of the General Assembly to allow the respective Speakers to consider each incident of equipment loss on a case by case basis as it relates to the Members' responsibility to replace such loss. The Director of Administration does report to the Office of the Comptroller loss of equipment as soon as information is received from the Member(s) of the General Assembly. The Director of Administration will continue to report losses timely.

CASH RECEIPTS

The objectives of the cash receipts testwork were to determine whether

- the cash receipting procedures described by management provide adequate controls,
- the office properly reconciled cash receipts from the receipt book or mail log to the deposit slip and the State of Tennessee Accounting and Reporting System (STARS), and
- deposits were made intact and in compliance with state rules and regulations.

We interviewed key personnel to gain an understanding of the office's procedures and controls over cash receipts and assessed the adequacy of the procedures. We selected a sample of daily receipts and determined if the receipts could be reconciled from the receipt books to the office's customer database to the deposit and STARS; and the deposits were made timely and intact.

Based on our interviews and testwork, we concluded the following:

- the cash receipting procedures described by management provide adequate controls,
- the office properly reconciles cash receipts from the receipt book or mail log to the deposit slip and STARS, and
- deposits were made intact and in compliance with state rules and regulations.

PAYROLL

The objectives of the payroll testwork were to determine whether

- the procedures described by management to process payroll and maintain personnel files were adequate;
- access to the State Employee Information System (SEIS) is limited to active employees whose job duties require this access, and the access did not create an inadequate segregation of duties; and
- supplemental pay was properly approved and in compliance with applicable laws and regulations.

We interviewed key personnel to gain an understanding of the procedures used to process payroll and maintain personnel files, and we assessed the adequacy of the procedures. We obtained from the Department of Finance and Administration a current list of all persons assigned to this office who have access to SEIS and the level of access. We then determined if these persons were active employees, had job duties that required this level of access, and had a level of access that created an inadequate segregation of duties. We obtained from State Audit's

Information Systems section a listing of all supplemental payments made since July 1, 2001. Supplemental pay is money paid to employees in addition to their regular salary and wages. We tested the 25 largest supplemental pay transactions to determine if the reason for the pay was in compliance with state laws and regulations and the pay was properly approved.

Based on our interviews and testwork, we determined that:

- the procedures described by management to process payroll and maintain personnel files were adequate;
- access to SEIS was limited to active employees whose job duties required this access, and the access did not create an inadequate segregation of duties; and
- supplemental pay was properly approved and in compliance with applicable laws and regulations.

APPENDIX

ALLOTMENT CODES

Office of Legislative Administration allotment codes:

301.01	Legislative Administration Services
301.07	House of Representatives
301.08	Senate
301.13	General Assembly Committees
301.16	General Assembly Support Services
301.17	Tennessee Code Commission