

**Office of the Comptroller of the Treasury**

**December 2004**

**Arthur A. Hayes, Jr., CPA, JD, CFE**  
Director

**Charles K. Bridges, CPA**  
Assistant Director

**Ronald E. Anderson, CPA, CFE**  
Audit Manager

**Jay Moeck, CPA, CFE**  
In-Charge Auditor

**Philip Mosley**  
**Barbara M. Ragan, CFE**  
**Andy Summar**  
**Cynthia B. Warner**  
Staff Auditors

**Amy Brack**  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

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

**SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

December 28, 2004

Members of the General Assembly  
and  
The Honorable John G. Morgan  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of the Comptroller of the Treasury for the year ended June 30, 2004.

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance. The consideration of the internal control structure and tests of compliance disclosed no major deficiencies.

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th  
05/032

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Office of the Comptroller of the Treasury**

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## **AUDIT SCOPE**

We have audited the Comptroller of the Treasury for the period July 1, 2003, through June 30, 2004. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state assessed properties.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

## **AUDIT FINDINGS**

The audit report contains no findings.

# Audit Report

## Office of the Comptroller of the Treasury

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# Office of the Comptroller of the Treasury

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of the Comptroller of the Treasury. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### BACKGROUND

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. The functions and duties of the office are assigned through various legislative enactments.

The Office of the Comptroller of the Treasury is organized into several divisions to discharge its statutory duties. The basic functions of each division are described below.

The Division of Administration provides direction, coordination, and supervision to the various divisions within the Comptroller’s Office and represents the Comptroller on various boards and commissions.

The Office of Management Services provides administrative and support services to the divisions of the Comptroller’s Office in areas of accounting, budgeting, payroll and personnel, information systems, and printing. The office assists the Comptroller in policy and contract matters and provides staff support for several boards and commissions.

The Division of State Audit conducts financial and compliance and performance audits, conducts investigations, and performs special studies to provide the General Assembly, the Governor, and citizens of Tennessee with information about the state’s financial condition and the performance of the state’s many agencies and programs.

The Division of County Audit is responsible for annual audits of all 95 counties in the state. The division establishes standards for county audits conducted by public accounting firms. The division assists local governments with financial administration questions.

The Division of Municipal Audit ensures that municipalities, designated school system funds, utility districts, and government-funded non-profit agencies are audited as required by state statute. The division investigates and issues reports on allegations of misconduct, fraud, or waste in local government, often referring findings to other agencies for appropriate action.

The Division of Bond Finance manages the state debt, including issuance of all bonds and notes and payment of such debt. This division serves as staff for the State Funding Board, State School Bond Authority, Tennessee Local Development Authority, and Bond Finance Committee of the Tennessee Housing Development Agency.

The Offices of Research and Education Accountability prepare reports at the request of the Comptroller and the General Assembly on various state and local government issues. The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly with reports on selected education topics.

The Division of Local Finance approves certain debt obligations of local governments, approves budgets of local governments which have certain debt obligations outstanding, and assists local governments with other debt and financial management issues.

The Office of State Assessed Properties annually appraises and assesses all public utility and transportation properties as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

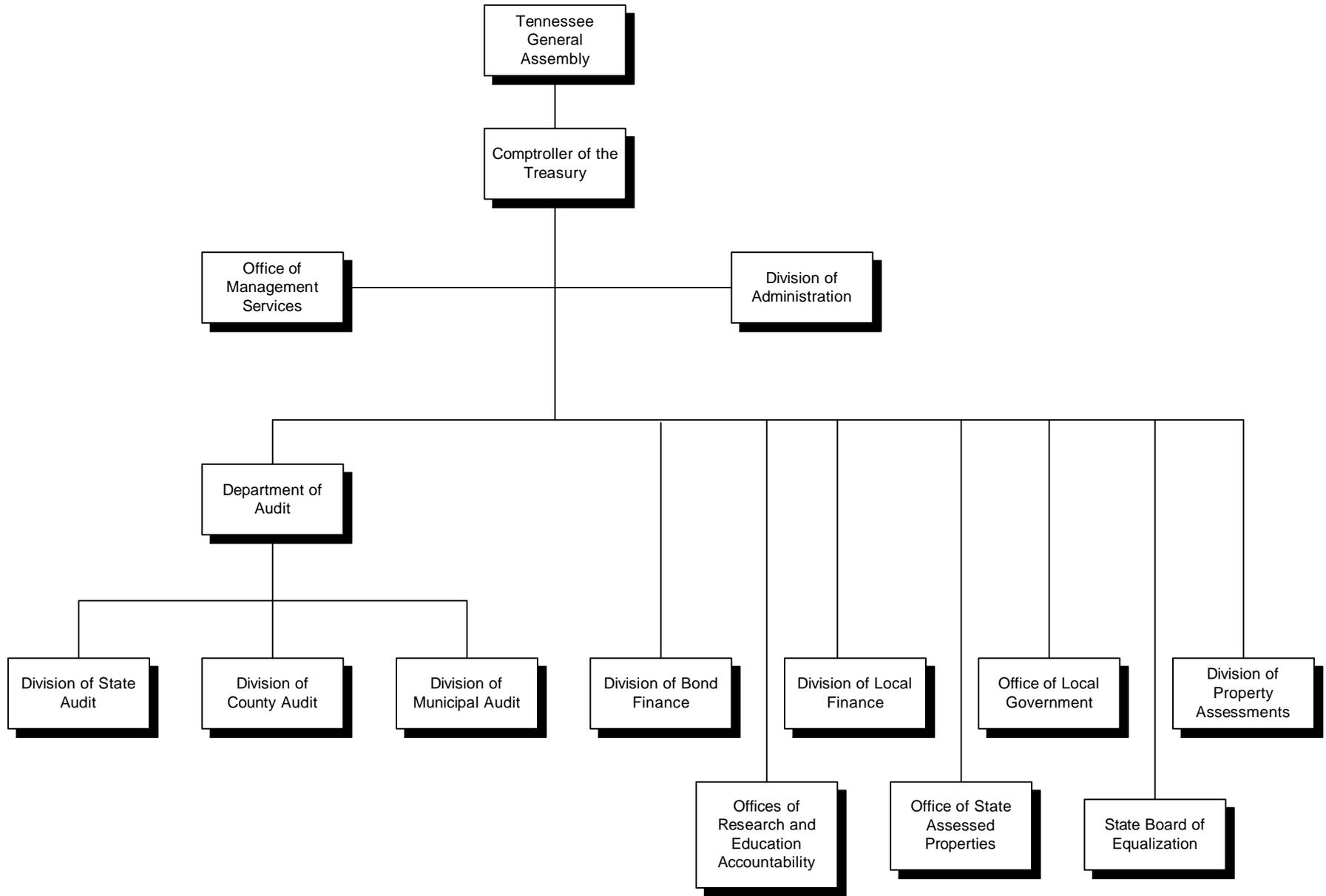
The Office of Local Government provides technical assistance to local governments in redistricting efforts and in establishing precincts, maintains county precinct information, and provides mapping services.

The State Board of Equalization is responsible for assuring constitutional and statutory compliance in assessments of property for ad valorem taxes. The board establishes rules and hears public utility assessment appeals.

The Division of Property Assessments assists local governments in assessment of property for tax purposes and administers the property tax relief program, which provides reimbursements to low-income elderly or disabled persons and certain disabled veterans or their surviving spouses.

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

# Comptroller of the Treasury Organization Chart



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## **AUDIT SCOPE**

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We have audited the Comptroller of the Treasury for the period July 1, 2003, through June 30, 2004. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state assessed property.

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

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### **REVENUE**

Our objectives in reviewing revenue controls and transactions were to determine whether

- revenue transactions appeared correct and valid,
- cash collected during the fiscal year was deposited timely and accounted for in the appropriate fiscal year, and
- fees had been billed correctly and the proper amount was received and recorded correctly.

We tested a non-statistical sample of revenue transactions for proper support and for compliance with the appropriate requirements relating to receipting, recording, and depositing funds. Also, the transactions were tested for compliance with the Department of Finance and Administration's policy for timely deposit and the appropriate fiscal year. We tested a sample of tax billings to determine if they were properly billed, received, and recorded.

Based on the testwork, it appears that revenue transactions were correct and valid. Cash collected during the audit period was deposited timely and accounted for in the proper fiscal year. In addition, we determined fees were charged, received, and recorded correctly. A minor instance of non-compliance was reported to management in a separate letter.

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## **ACCOUNTS RECEIVABLE**

Our objectives in reviewing accounts receivable transactions were to determine whether

- receivables shown on the books were actual receivables and whether cash had not already been received to reduce the amounts,
- management performed adequate collection efforts,
- write-off procedures were adequate, and
- receivables were stated at the net realizable amount.

We tested a non-statistical sample of account balances and sent confirmations to customers in order to determine the validity of the account balances as of June 30, 2004. We reviewed management's policies for collection of delinquent accounts and write-off procedures. We also reviewed credit balances.

Our review and testwork indicated that uncollected revenue amounts were recorded as receivables and stated at the proper amount. We determined that collection efforts and write-off procedures appeared adequate. Receivables appeared valid and stated at the net realizable amount.

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## **EXPENDITURES**

Our objectives in reviewing expenditure controls, procedures, and transactions were to determine whether

- expenditures for goods or services have been identified and recorded correctly,
- recorded expenditures were for goods or services authorized and received,
- payments were made in a timely manner,
- the office reconciled its expenditure records with Department of Finance and Administration accounting reports,
- payments for travel were made in accordance with the Comprehensive Travel Regulations,
- funds encumbered were liquidated for the same purpose as the original encumbrance, and

- procedures regarding year-end cutoff of encumbrances and accounts payable were adequate to reflect proper amounts and all material outstanding obligations.

We tested non-statistical samples of expenditures for approvals and evidence of receipt. We tested the expenditures, including contract and travel, for accurate recording, timely payment, and compliance with applicable laws and regulations. We also tested the liquidation of encumbrances through June 30 and reviewed reconciliations of office records with the Department of Finance and Administration accounting reports. We reviewed year-end procedures.

As a result of our testwork, we determined that expenditures were recorded correctly and were for goods authorized and received. We determined that payments were made timely and were in compliance with applicable laws and regulations. Also, encumbered funds were liquidated properly, and the office's records were reconciled with Department of Finance and Administration accounting reports. Year-end procedures appeared adequate.

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## **EQUIPMENT**

Our objectives in reviewing equipment were to determine whether

- equipment could be located,
- purchases of equipment were accurately recorded on the inventory systems,
- the office's equipment listing agreed to the state's property listing,
- depreciation methods provide for accurate and correct adjustments,
- equipment was properly safeguarded, and
- items removed from the equipment listing were removed in accordance with state policy.

We tested samples of active equipment and equipment purchased during the audit period to verify that the state tag numbers, serial numbers, and descriptions agreed to the statewide property listing on Property of the State of Tennessee (POST) and the office property listings, and the items were physically located. In addition, the samples of equipment purchased were traced to the supporting invoices to determine accurate recording in POST and the State of Tennessee Accounting and Reporting System (STARS). The calculation method for depreciation of capital assets for the Capitol Print Shop was reviewed, and the calculation at year end was reviewed. Policies and procedures for safeguarding equipment were discussed with management and observed by the auditor. Policies and procedures for retired, lost, and stolen equipment were reviewed, and supporting documentation for all items removed from the property listing from July 1, 2003, to June 30, 2004, was reviewed for compliance with state policy.

Based on the testwork performed, equipment could be located and was accurately recorded on the office's and state's equipment listing. Purchases were accurately recorded on the inventory systems and accounting systems. Equipment listings agreed to the state's inventory systems. Depreciation methods were proper, and adjustments were accurately calculated and recorded. Equipment was properly safeguarded and was removed from the equipment listings in accordance with state policy. There were minor instances of noncompliance noted and reported in a separate letter to management.

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## **PROPERTY TAX RELIEF**

Our objectives in reviewing the property tax relief program were to determine whether

- property tax relief payments were made to eligible individuals,
- property tax relief payments made to ineligible individuals were collected, and
- controls over the property tax relief process were adequate.

We tested a non-statistical sample of tax relief payments to verify that the proper documentation was on file to show the recipient's eligibility for the payments. In addition, we tested returned warrants, cancelled warrants, and deposits to determine propriety of collections. An internal controls memo and flowcharts were updated and added. In addition, a monthly reconciliation between the Property Tax Relief records and the records of the Division of Accounts was selected and tested for accuracy and propriety.

Based on testwork, tax relief payments appear to have been made to eligible individuals; returned warrants, cancelled warrants, and deposits appear to be supported, collected, and deposited properly; and controls over the property tax relief process appeared adequate. A minor instance of noncompliance was noted and reported to management in a separate letter.

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## **STATE ASSESSED PROPERTIES**

Our objectives in reviewing the state assessed properties were to determine whether

- requests for tax reduction payments were in writing and submitted timely,
- a notarized statement of the property taxes paid by jurisdiction was attached to the request, and
- tax reduction payments were paid correctly.

We tested a non-statistical sample of tax reduction payments to verify the payment requests were in writing and submitted timely. We tested requests to ensure they were notarized. We reviewed the calculations used to determine the tax reduction payments.

Our review indicated that the tax reduction payment requests were written and submitted timely. The tax reduction payment requests were properly notarized and paid correctly. Based on our review of tax reduction payments, it appears that payments are being properly documented and paid.

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## **FINANCIAL INTEGRITY ACT**

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive entity to submit a letter acknowledging responsibility for maintaining the internal control system of the entity to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the entity's June 30, 2004, responsibility letter was filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2004, responsibility letter submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letter was submitted on time.

In addition, Section 9-18-104(b), *Tennessee Code Annotated*, requires the head of each executive entity to conduct an evaluation of the entity's internal accounting and administrative control in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*, and submit a report by December 31, 1999, and December 31 of every fourth year thereafter, to the Commissioner of Finance and Administration and the Comptroller of the Treasury.

Our objective was to determine whether the entity's December 31, 2003, responsibility report was filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the December 31, 2003, Financial Integrity Act responsibility report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility report was submitted on time. In addition, we reviewed documentation supporting the department's evaluation and the procedures used in compiling the information for the report. We determined the documentation and procedures were adequate to prepare a report in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*. Finally, we reviewed the Financial Integrity Act responsibility report for material weaknesses reported by the entity, and any corrective actions that are being or that have been implemented. The entity reported no material weaknesses; therefore, no follow-up review of corrective actions was required.

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## **OBSERVATIONS AND COMMENTS**

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### **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We also obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Office of the Comptroller of the Treasury divisions and allotment codes:

307.01	Division of Administration
307.02	Office of Management Services
307.03	Capitol Print Shop
307.04	Division of State Audit
307.05	Division of County Audit
307.06	Division of Municipal Audit
307.07	Division of Bond Finance
307.08	Office of Local Government
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.12	Division of Local Finance
307.14	Offices of Research and Education Accountability
307.15	Office of State Assessed Properties
307.50	Ad Valorem Tax Equity Payments

The Comptroller is a member of the following:

Access Improvement Project Committee  
Advisory Commission on Intergovernmental Relations  
Advisory Committee to Monitor Internet  
Baccalaureate Education System Trust  
Board of Claims  
Board of Equalization  
Board of Standards  
Building Commission  
Child Care Facilities Corporation  
Consolidated Retirement System Board of Trustees  
Council on Pensions and Insurance  
Emergency Communications Board  
Funding Board  
Governor's Council on Health and Physical Fitness  
Health Services and Development Agency  
Higher Education Commission  
Housing Development Agency

Industrial Development Authority  
Industrial Finance Corporation  
Information Systems Council  
Library and Archives Management Board  
Local Development Authority  
Local Education Insurance Committee  
Local Government Insurance Committee  
Public Records Commission  
Publications Committee  
Review Committee  
School Bond Authority  
Sports Festivals, Inc.  
State Capitol Commission  
State Government Improvement Task Force  
State Insurance Committee  
State Trust of Tennessee Board of Directors  
Student Assistance Corporation  
Tuition Guaranty Fund Board  
Utility Management Review Board  
Water/Wastewater Financing Board  
Workers Compensation Insurance Fund Board