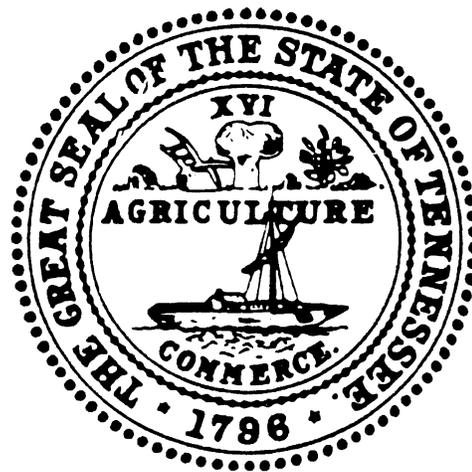


AUDIT REPORT

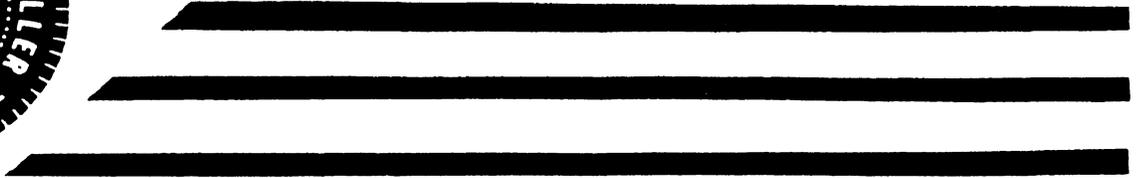
Department of Correction

March 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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(615)741-2501

John G. Morgan
Comptroller

March 29, 2007

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

and
The Honorable George Little, Commissioner
Department of Correction
Fourth Floor, Rachel Jackson Building
320 Sixth Avenue North
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Correction for the period April 1, 2003, through June 30, 2005.

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/ddm
05/058



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

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July 28, 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 Department of Correction for the period April 1, 2003, through June 30, 2005.

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 Correction's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Correction 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 management 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 Correction's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddm

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Correction
March 2007

AUDIT SCOPE

We have audited the Department of Correction for the period April 1, 2003, through June 30, 2005. 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 Inmate Trust Fund Account, the Tennessee Bridges Program, payroll, equipment, contracts, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, approving certain state contracts, and participating in the negotiation and procurement of services for the state.

AUDIT FINDINGS

Management Responsible for the Drawdown of Federal Funds Has Not Followed the State's Policies Governing the Drawdown of Federal Funds, and Has Committed State Funds Without Seeking Federal Reimbursement for a Time Longer Than Necessary, Resulting in the Loss of the Use of State Funds for Non-Federal Operations

The department did not draw down federal funds promptly, as required by the Department of Finance and Administration's Policy 20. Eight of nine federal draw requests tested totaling \$589,500 were made

from 4 to 225 days late (an average of 75 days late) (page 5).

Management Has Not Assessed and Mitigated the Risks Associated With Inadequate Documentation to Support Military Leave Taken and Lack of Compliance With State Statute Governing Military Leave, Increasing the Risk of Payroll Overpayments

Four state prisons could not provide documentation supporting paid military leave for a total of 994 hours. Also, the department overpaid 32 employees a total of

1,246.5 hours of military leave. Employees are only allowed 15 days of military leave per calendar year. In addition, management did not take corrective action based on the department's own internal audits which identified military leave overpayments (page 8).

Files of a Significant Number of New Employees Did Not Contain All Required Documentation and Not All Separation Notices Were Processed in a Timely Manner, Increasing the Risks of Hiring Inappropriate Personnel and Misuse of State Resources

Staff of four prisons reviewed failed to maintain certain documents for newly hired employees which were required by the *Code of Federal Regulations* and departmental policies. In addition, staff of these four prisons violated *Rules of the Tennessee Department of Labor and Workforce Development* by not generating employee separation notices within 24 hours of the effective date of an employee's separation from employment (page 12).

Management Did Not Comply With the State's Policy Governing Payroll Overpayments and Did Not Notify the Comptroller of the Treasury of These Overpayments, Which Totaled \$110,870

Management did not act promptly to recoup payroll overpayments totaling \$110,870 to four employees. Also, staff in the fiscal office failed to maintain all related time sheets and supporting calculations for three of the employees. In addition, management did not notify the Comptroller of the Treasury of these overpayments as required

by Department of Finance and Administration Policy 11 (page 15).

The Department Has Not Established Adequate Controls Over the Physical Inventories of Equipment to Ensure the Accuracy of the State's Equipment Records and Has Not Reported Lost or Stolen Equipment to the Comptroller's Office, Increasing the Risk of Inadequate Investigation of Property Losses

We reviewed a sample of 65 equipment items recorded in POST. Problems found included 7 missing equipment items, 11 items in a location other than reported in POST, and 15 items with incorrect serial numbers recorded in POST. Also, management did not report the 7 missing equipment items to the Comptroller of the Treasury's office as required by Section 8-19-501, *Tennessee Code Annotated* (page 18).

Management Has Not Assessed and Mitigated the Risks Associated With Failing to Obtain All Approvals for Contracts Before the Beginning of the Contract Period and Before Expenditures Were Incurred, Increasing the Risk of the State Being Obligated to Pay for Unallowable Services

The department did not obtain approval from all parties before the beginning of the contract period for all 13 contracts tested. Also, management allowed 6 of these 13 contractors to commence services prior to obtaining all approvals and without the Commissioner of Finance and Administration's authority, thus incurring expenditures before the contracts were fully approved (page 20).

Financial and Compliance Audit Department of Correction

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Financial and Compliance Audit Department of Correction

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Correction. 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

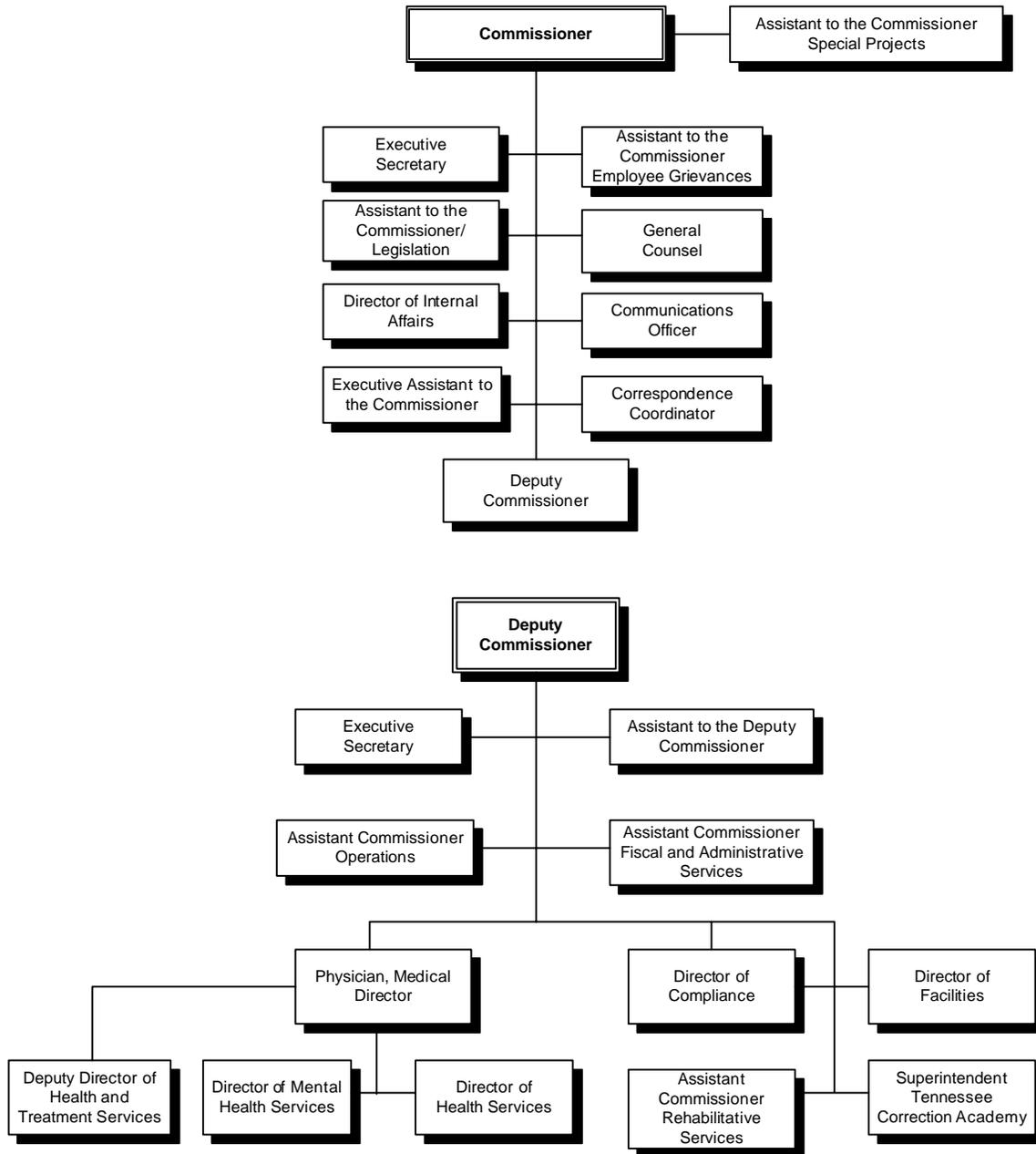
The mission of the Tennessee Department of Correction is to enhance public safety through incarceration of convicted felons; enhance inmate life skills through selected rehabilitative programming; and make implementation of cost-effective measures a clear priority. The department’s vision is to maintain a standard of excellence in security and corrections through the professional development of its employees; the operations of the department are enhanced by technology and best practices and committed to providing opportunities for offenders’ rehabilitation so as to reduce recidivism.

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

AUDIT SCOPE

We have audited the Department of Correction for the period April 1, 2003, through June 30, 2005. 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 Inmate Trust Fund Account, the Tennessee Bridges Program, payroll, equipment, contracts, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury.

Department of Correction



Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration, approving certain state contracts, and participating in the negotiation and procurement of services for the state.

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 Department of Correction filed its report with the Department of Audit on October 8, 2004. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Correction has corrected previous audit findings concerning ineffective controls over the Inmate Trust Fund Account; inadequate policies, procedures, and operating controls for the Tennessee Offender Management Information System (TOMIS); and an insufficient TOMIS disaster recovery plan.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

INMATE TRUST FUND ACCOUNT

The Inmate Trust Fund Account was established by Department of Correction Policy 208.01 to create a cashless inmate economy. This policy receives its authority through *Tennessee Code Annotated*, Public Chapter 992, and the Inmate Financial Responsibility Act of 1998.

Our objectives for reviewing inmate trust funds were

- to follow up on the prior audit finding concerning the lack of effective internal controls over the Inmate Trust Fund Account at the central office;
- to determine whether procedures and controls over inmate trust funds were adequate;
- to determine whether transactions (deposits and withdrawals) affecting the inmate's trust fund account were properly supported, approved, and recorded;
- to determine whether the Inmate Trust Fund Account was properly closed, upon the release or decease of the inmate;

- to determine whether earned interest was expended in accordance with departmental policy; and
- to determine whether the working inmate's gross pay was properly calculated.

We interviewed Department of Correction personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over the inmate trust funds and to follow up on the prior audit finding. The following prisons were visited: Hardeman County Correctional Facility, Whiteville Correctional Facility, Northwest Correctional Complex, West Tennessee State Penitentiary, Mark H. Luttrell Correctional Center, and Wayne County Boot Camp. We selected a nonstatistical sample of inmates at each visited prison. All transactions (deposits and withdrawals) affecting the inmate's trust account during the month of December 2004 were tested to determine whether transactions were properly supported, approved, and recorded. We also selected a nonstatistical sample of inmates either released or deceased from these visited prisons during the period April 1, 2003, through December 31, 2004, to determine whether the inmates' trust accounts were properly closed. All disbursement transactions for the earned interest during the period April 1, 2003, through December 31, 2004, at the visited prisons were tested to determine whether the earned interest was expended in accordance with departmental policy. We selected a nonstatistical sample of working inmates at the visited prisons for the month of December 2004 and recalculated their gross wages to determine whether their gross pay was properly calculated.

Based on our interviews and reviews of supporting documentation, we determined that procedures and controls regarding the inmate trust funds were adequate and the prior audit finding had been corrected. Based on our testwork, we determined that transactions (deposits and withdrawals) affecting the inmate's trust account were properly supported, approved, and recorded; the inmates' trust accounts were properly closed, upon the release or decease of the inmates; the earned interest was expended in accordance with departmental policy; and the working inmates' gross pay calculations were proper.

TENNESSEE BRIDGES PROGRAM

The mission of the Tennessee Bridges Program is to provide a reentry program addressing behavioral treatment, employment assistance, and community services to serious and violent offenders. Bridges offers assistance through institutional based programs, community based transitions, and community based long-term support. Bridges coordinates some activities with the Tennessee Board of Probation and Parole.

The objectives of our review of the Tennessee Bridges Program were to determine whether

- procedures and controls over the Tennessee Bridges Program were adequate to carry out its mission;

- federal drawdowns complied with the Department of Finance and Administration’s (F&A) Policy 20, “Recording of Federal Grant Expenditures and Revenues”;
- participant fees were properly collected in the appropriate amount; and
- federal financial reports were submitted timely.

We interviewed Department of Correction personnel and reviewed supporting documentation to gain an understanding of the department’s procedures and controls over the Tennessee Bridges Program. We tested all drawdowns of federal funds during the period June 1, 2003, through December 23, 2004, to determine whether federal drawdowns complied with F&A Policy 20. We selected a nonstatistical sample of participants to determine whether the fees were properly collected in the appropriate amount. Those fees included restitution to the Criminal Injuries Compensation fund, room and board, and electronic monitoring. We tested all eight quarterly federal financial reports due from April 1, 2003, through February 28, 2005, to determine whether the federal financial reports were submitted timely.

Based on our interviews and reviews of supporting documentation, we determined that procedures and controls concerning the Tennessee Bridges Program were adequate. Based on our testwork, we determined that participant fees were properly collected in the appropriate amount and the federal financial reports were submitted timely in all material respects. However, we found that management did not comply with F&A Policy 20 when drawing down federal funding (see finding 1).

1. Management responsible for the drawdown of federal funds has not followed the state’s policies governing the drawdown of federal funds, and has committed state funds without seeking federal reimbursement for a time longer than necessary, resulting in the loss of the use of state funds for non-federal operations

Finding

The Department of Correction did not comply with Department of Finance and Administration Policy 20, “Recording of Federal Grant Expenditures and Revenues,” regarding the prompt drawdown of federal funds in the Offender Reentry Program. The department uses the federal funds from the Offender Reentry Program to operate the Tennessee Bridges Program. The main purpose of the Bridges program is to develop a reentry program for serious and violent offenders. The department pays expenditures for the Bridges program with state dollars and then draws down federal funds to cover the expenditures.

According to Policy 20, the department’s drawdown requests for federal assistance programs not covered by the U.S. Department of Treasury Cash Management Improvement Act Agreement must be made within 30 days of the expenditure or when federal expenditures total \$5,000. The Department of Finance and Administration provides departments with a Daily Grant Drawdown Report to facilitate the tracking of expenditures and the timing of drawdowns.

Our review of the department's Offender Reentry Program revealed that the department began incurring monthly expenditures in the program in October 2002. However, the department's cost accountant did not submit the first drawdown request until June 1, 2003. Based on our testwork, we found that the cost accountant did not use the Daily Grant Drawdown report to track the program expenditures and did not initiate the federal draw requests within the timeframe required by Policy 20. Specifically, the cost accountant requested nine federal draws for the period June 1, 2003, through December 23, 2004. For eight of those nine federal draw requests tested (89%) totaling \$589,500, the requests were made from 4 to 225 days late (an average of 75 days late). For seven drawdowns, the cost accountant did not request federal funds when expenditures reached \$5,000. The cost accountant made the remaining drawdown beyond 30 days after the initial expenditure of state funds. Although the cost accountant stated that she was aware of the drawdown requirement, she failed to properly follow Policy 20. The cost accountant stated that she gets behind on her work at certain times of year, especially in the fall, and did not give the drawdown process priority since the amounts were not significant.

Significant time lapses between the disbursement of state dollars and the appropriate drawdown of federal funds result in the inefficient use of state money and the interest income on state money used to fund the expenditures.

Recommendation

The Director of Fiscal Services should monitor the drawdown process to ensure that the department's cash management activities comply with Department of Finance and Administration (F&A) Policy 20. The Director should redistribute duties among fiscal staff if necessary to meet the policy requirements. The Commissioner should ensure that the risk of noncompliance with F&A Policy 20 is included in management's documented risk assessment.

The Commissioner should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

Management's Comment

We concur. The Director of Fiscal Services will ensure that there is a monthly monitoring of the grant process to ensure that the Department of Correction is meeting all requirements of F&A Policy 20. The Commissioner will ensure that the associated risks of noncompliance with F&A Policy 20 will be included in the department's risk assessment.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in

place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

PAYROLL

Our objectives for reviewing the department's payroll function were to determine whether

- procedures and controls regarding payroll were adequate;
- the department complied with the requirements of Section 8-33-109, *Tennessee Code Annotated*, in regard to obtaining competent orders supporting employees military leave and limiting military leave to 15 working days in any one calendar year;
- personnel files for newly hired employees contained all required documentation;
- the department generated a separation notice within 24 hours after the effective date of the employee's separation;
- leave for wardens was properly recorded on the employee attendance and leave authorization form and the form contained all required signatures; and
- the department handled payroll overpayments in accordance with Department of Finance and Administration (F&A) Policy 11.

We interviewed Department of Correction personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over payroll. We visited Mark H. Luttrell Correctional Center, Northwest Correctional Complex, Wayne County Boot Camp, and West Tennessee State Penitentiary to perform testwork. We obtained a listing of all military leave taken during calendar years 2003 and 2004 for the four visited prisons to determine whether military leave complied with Section 8-33-109, *Tennessee Code Annotated*, in regard to competent orders. We also obtained a listing of all departmental employees who took military leave in excess of the 15 days allowed for each of the calendar years 2003 and 2004, and examined internal audit reports released during the audit period of April 1, 2003, through June 30, 2005, that identified employees who took military leave in excess of the 15 days allowed for each calendar year 2001 and 2002. We interviewed key departmental employees and reviewed supporting documentation to determine whether the department had corrected its military leave process by disallowing employees military leave in excess of 15 days. We obtained a listing of all newly hired employees at the visited prisons during the period April 1, 2003, through October 31, 2004. We tested nonstatistical samples of newly hired employees at Mark H. Luttrell Correctional Center, Northwest Correctional Complex, and West Tennessee State Penitentiary and all 16 newly hired employees at Wayne County Boot Camp in order to determine whether the personnel files at these four prisons contained all required documentation. The documentation included Internal Revenue Service forms, employment eligibility verification forms, background checks, fingerprint reports, training documentation, application, and acknowledgements of departmental policies including Internet usage, uniform return, Title VI, the hostage statement, and the code of conduct. Also, we obtained a listing from the four visited prisons of employees separated from the department during the period April 1, 2003, through

October 31, 2004. We tested nonstatistical samples of separated employees at Mark H. Luttrell Correctional Center, Northwest Correctional Complex, and West Tennessee State Penitentiary and all 19 separated employees at Wayne County Boot Camp in order to determine whether department staff generated separation notices within 24 hours after the effective date of the employees' separation. We obtained and tested a listing of all leave used by wardens during the period November 1, 2004, through December 31, 2004, in order to determine if the leave was properly recorded on each employee attendance and leave authorization form and that each form contained all required signatures. We also made inquiries of management and reviewed supporting documentation to determine if the department handled payroll overpayments in accordance with F&A Policy 11.

Based on our interviews and reviews of supporting documentation, we determined that procedures and controls regarding payroll were adequate. Also, in all material respects, leave for wardens was properly recorded on each employee attendance and leave authorization form and that each form contained all required signatures. However, we determined that the department did not always comply with Section 8-33-109, *Tennessee Code Annotated*, in regard to obtaining competent orders for military leave and limiting military leave to 15 working days in any one calendar year (see finding 2); personnel files for newly hired employees did not always contain all required documentation (see finding 3); and the department staff did not always generate a separation notice within 24 hours after the effective date of the employees' separation (see finding 3). In addition, management did not comply with F&A's Policy 11 governing payroll overpayments (see finding 4).

2. Management has not assessed and mitigated the risks associated with inadequate documentation to support military leave taken and lack of compliance with state statute governing military leave, increasing the risk of payroll overpayments

Finding

Management of the Department of Correction has not ensured that personnel staff at its state prisons maintain appropriate documentation to support military leave taken by its employees. In addition, management has not taken corrective action based on the department's own internal audits which identified military leave overpayments.

Missing Military Leave Documentation

We performed testwork to determine if the department maintained adequate documentation to support military leave taken by its employees for the following four state prisons: Mark H. Luttrell Correctional Center (Shelby County), Northwest Correctional Complex (Lake County), Wayne County Boot Camp (Wayne County), and West Tennessee State Penitentiary (Lauderdale County). We found that the department did not obtain military orders prior to employees taking military leave.

Section 8-33-109, *Tennessee Code Annotated*, states that employees who serve in the armed forces

shall be entitled to leave of absence from their respective duties, without loss of time, pay, . . . for all periods of military service during which they are engaged in the performance of duty or training in the service of this state, or of the United States, under competent orders.

The Commissioner of the Department of Personnel sent a memorandum dated June 20, 2005, to all state personnel officers reminding them of appropriate military leave procedures including the above mentioned statute and clarifying that “employees requesting military leave must submit their orders to their supervisors prior to going on military leave.”

We reviewed the personnel files for all active military employees employed with the department at these four state prisons to determine whether state prison personnel had obtained and maintained adequate military orders and/or Leave and Attendance Authorization Forms to support the military leave taken by its employees. Testwork results are exhibited in the table below. Personnel at these four prisons were able to provide some of the missing military orders after our initial audit testwork was completed and problems were brought to their attention.

	Northwest Correctional Complex	West Tennessee State Penitentiary	Mark H. Luttrell Correctional Center	Wayne County Boot Camp
Total Employees' Military Leave Examined	91	79	23	59
Employees' Files Initially Missing Documentation	50	39	3	7
Employees' Files Still Missing Documentation, as of June 15, 2005	20	11	3	0
Total Hours Without Adequate Supporting Documentation	550	302	142	0

Overpayments to Employees for Military Leave

Section 8-33-109, *Tennessee Code Annotated*, states:

All officers and employees of this state . . . who are . . . members of any reserve component of the armed forces of the United States, including members of the Tennessee army and air national guard, shall be entitled to leave of absence from their respective duties, . . . not exceeding fifteen (15) working days in any one (1) calendar year. . . .

Using computer-assisted auditing techniques, we identified all department employees whose military leave exceeded the maximum limit of 15 days allowed by state statute. We found 21 state prison employees whose military leave exceeded 15 days for the 2003 and 2004 calendar years.

We also found that the department's Office of Internal Audit had previously identified 11 state prison employees with excess military leave days for calendar years 2001 and 2002. In total the department overpaid these 32 employees 1,246.5 hours of military leave ranging from 5 hours to 165 hours per employee.

Prior to the beginning of our audit, the department had initiated procedures to collect the overpayments from 15 of these 32 employees. However, the department had not initiated procedures to collect the overpayments from the remaining 17 employees, even though 11 of these overpaid employees were those employees previously identified in the department's Internal Audit Reports. The Internal Audit Reports were released from July 29, 2003, to June 23, 2004, allowing department management ample time to take corrective action and recover the overpayments.

Once we discussed these overpayments with the Assistant Director of Fiscal Services, the department initiated the paperwork to collect 14 of the remaining 17 overpayments. Three employees were no longer with the department. Two of the three employees were overpaid \$80, and the remaining employee was overpaid \$142. According to the Department of Finance and Administration (F&A) Policy 11, "Recovery of Overpayments, Undercollections, or Other Debts from Inactive Employees," a debt owed by an inactive employee should be recorded as an accounts receivable to the state and subject to the provisions of F&A Policy 23, "Accounts Receivable – Recording, Collection, and Write-Offs." This policy requires the department to make three collection attempts for each debtor. In addition, receivables \$100 and over are required to be sent to a collection agency if collection attempts were not successful. Therefore, the \$142 overpayment should have been sent to a collection agency. However, the Assistant Director of Fiscal Services did not establish the accounts receivable and did not pursue collection from these three former employees.

Failure to obtain and maintain required documentation increases the risk that payroll overpayments can occur. In addition, without adequate oversight and review by the Assistant Commissioner for Administration to ensure compliance with applicable law and departmental

policy, overpayments such as these can go undetected. Furthermore, if the Commissioner does not ensure corrective action is taken for problems identified by the department's internal audit office, the Commissioner cannot set the proper tone necessary to adequately prevent and detect fraud, waste, and abuse.

Recommendation

The Commissioner should assign specific personnel to ensure that proper controls are in place to secure military orders prior to military leave being taken for all employees, including those at all of the 15 state prisons. This should include ensuring that all staff involved in these operations are knowledgeable of the relevant laws and policies and that all staff are aware of ways to report any override or circumvention of controls to officials not involved in any such overrides or circumventions. The Commissioner should ensure that the proper ethical tone is set at the top of the organization by taking appropriate personnel action when controls are disregarded or laws, policies, procedures or rules are not followed. The Commissioner should also ensure that employees are not paid for more than 15 days of military leave in a calendar year and that if overpayments like those noted in Internal Audit Reports do occur, they are promptly corrected and overpayments are promptly collected. Fiscal staff should pursue collections as required by applicable policy. Management should include the risks noted in this finding in management's documented risk assessment.

The Commissioner should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

Management's Comment

We concur. The Commissioner will ensure that department staff are specifically identified to ensure that proper, effective controls are in place to secure military orders prior to military leave being taken by department employees. Staff involved will be trained on relevant laws and policies, and procedures will be implemented to ensure that staff on military leave are not paid for more than 15 days in a calendar year.

Procedures and ongoing monitoring will be put in place to ensure that identified overpayments are promptly corrected and promptly collected as dictated by applicable policy.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

3. **Files of a significant number of new employees did not contain all required documentation and not all separation notices were processed in a timely manner, increasing the risks of hiring inappropriate personnel and misuse of state resources**

Finding

Staff of four prisons reviewed failed to maintain certain documents for newly hired employees which were required by the *Code of Federal Regulations* and departmental policies. In addition, staff of these facilities violated *Rules of the Tennessee Department of Labor and Workforce Development* by not generating employee separation notices within 24 hours of the effective date of an employee's separation from employment.

Testwork on newly hired employees and separated employees was performed at the following four state prisons: Mark H. Luttrell Correctional Center, Northwest Correctional Complex, Wayne County Boot Camp, and West Tennessee State Penitentiary, located in Shelby County, Lake County, Wayne County, and Lauderdale County, respectively.

Newly Hired Employees

We selected samples of 25 newly hired employees at Mark H. Luttrell Correctional Center, Northwest Correctional Complex, and West Tennessee State Penitentiary. We tested all 16 newly hired employees at Wayne County Boot Camp. Our testwork covered the period of April 1, 2003 through October 31, 2004. In our testwork, we requested certain documentation prescribed by the *Code of Federal Regulations* and departmental policies. However, three state prisons failed to provide us with all required documentation for newly hired employees. We discussed the cause of this missing documentation with the personnel employees at the state prisons. They were not certain whether the documentation was lost or not obtained in the first place. The following problems were noted:

- At the Mark H. Luttrell Correctional Center, staff in the personnel office failed to provide the following information from seven personnel files: three fingerprint cards, two background check reports, and two employee acknowledgement forms required by the department's uniform policy. Department of Correction Policy 301.04, entitled "Job Requirements," requires a criminal history record check for all new and prospective departmental and contract employees. Both the fingerprint cards and the background check reports comprise the criminal history record check. According to the prison's personnel analyst, it is the practice of the department to obtain signed policy acknowledgements of an employee's responsibility for returning state-issued uniforms. Department of Correction Policy 506.23, entitled "Provision and Maintenance of Security Uniforms," states that the issued uniforms are to be returned within "72 hours of an employee's last day of work." The prison rehired one of the two employees for whom a background check report was missing. The personnel officer thought that might be the reason no background check report was obtained. However, background check reports should also be obtained and kept on file when employees are rehired.

- At the Northwest Correctional Complex, staff in the personnel office failed to adequately complete Section 2 of the U.S. Department of Homeland Security Form I-9 (Employment Eligibility Verification form) for one employee. The U.S. Department of Homeland Security, under the *Code of Federal Regulations*, Section 8, Part 274a.2, requires employers to maintain certain documentation for completing Form I-9 to control the employment of unauthorized aliens.
- At the Wayne County Boot Camp, staff in the personnel office failed to provide the “Information Technology Resources and Services Use Agreement” form from two personnel files. Before we left the prison, the department had the employees complete these two forms which they provided to us. Department of Correction Policy 109.05, entitled “Acceptable Use of Internet and E-Mail,” requires all users to complete this form.

Criminal history record checks are necessary to decrease the risk of hiring criminals and endangering the safety and welfare of correctional staff and inmates. Adherence to the documentation requirements of the U.S. Department of Homeland Security is important to reduce the risk of the department hiring unauthorized aliens. Proper acknowledgements of understanding of departmental policies are necessary to document that employees were informed of the appropriate uses of state resources. In addition, when these acknowledgments are not completed and retained, it is more difficult to take disciplinary action against an employee for the inappropriate use of state resources.

Employee Separation Notices

We also performed testwork at these four state prisons to determine if staff performed the proper procedures for employees who no longer work for the department. Chapter 0560-1-1-.02(1)(a) of the *Rules of the Department of Labor and Workforce Development* requires that the department must provide the employee with a separation notice within 24 hours after the employee’s separation from employment, to facilitate the processing of unemployment insurance claims and help make a more accurate determination of a claimant’s eligibility for benefits. We selected samples of separated employees at Mark H. Luttrell Correctional Center, Northwest Correctional Complex, and West Tennessee State Penitentiary, and we tested all 19 separated employees at Wayne County Boot Camp. Our testwork covered the period of April 1, 2003, through October 31, 2004.

Specifically, we reviewed 93 separation notices and found that 58 of 93 separation notices (62%) were generated more than 24 hours after the effective date of the employee’s separation:

- At the Mark H. Luttrell Correctional Center, staff generated separation notices from 2 to 43 days late (an average of 18 days late) for 13 of 25 employees tested (52%).
- Staff at Northwest Correctional Complex generated separation notices one to 31 days late (an average of 10 days late) for 11 of 24 employees tested (46%).

- Staff at Wayne County Boot Camp generated separation notices for 11 of 19 employees tested (58%) from 3 to 29 days late (an average of 11 days late).
- Staff at the West Tennessee State Penitentiary did not generate timely separation notices for 23 of 25 employees tested (92%). The separation notices were generated by staff from 3 to 41 days late (an average of 16 days late).

Based on our interviews with state prison staff regarding delays in their ability to generate separation notices within 24 hours, the consensus among staff was that normal operating procedures and the organizational structure caused an inherent “lag time.” For example, department staff did not prepare the separation notices until they obtained all supporting documentation explaining the cause of the resignation or termination. In addition, the prison’s personnel staff may not receive the departing employee’s documentation until it makes its way through the chain of command.

Failure to generate separation notices within the required 24 hours could unnecessarily delay or complicate the Department of Labor and Workforce Development’s eligibility determination process for former employees seeking unemployment benefits.

Recommendation

Each facility’s Personnel Officer should obtain the required documentation for all newly hired employees, including background checks, fingerprint cards, acknowledgments of departmental policy, and adequate Form I-9 documentation. Management should ensure that personnel employees complete separation notices within the required 24 hours. Management needs to identify staff to be responsible for ongoing monitoring for compliance with all documentation requirements for newly hired and separated employees. Management should include the risks noted in this finding in management’s documented risk assessment.

The Commissioner and Assistant Commissioner of Operations should review the results of this finding and take further steps to determine how broad these problems may be throughout the department. They should assess the overall risks these conditions represent to the department and the specific risks they present to the institutions in question.

The Commissioner and Assistant Commissioner of Operations should ensure that internal controls are designed to effectively mitigate these risks and take the steps necessary to implement the controls. These controls should include measures providing for the regular monitoring of the control activities. When monitoring discloses problems, including the circumvention or overriding of the controls, appropriate, timely, and remedial actions should be taken.

The Commissioner should also ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management’s documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner.

Management's Comment

We concur. Procedures will be put in place department-wide to ensure that all required documentation for newly hired employees will be collected and filed according to policy. Separation notices will be completed by appropriate staff within 24 hours as required by the *Rules of the Department of Labor and Workforce Development*. The Commissioner will ensure that staff are identified to provide ongoing monitoring of compliance with all documentation requirements pertaining to newly hired or separated employees. Appropriate, timely and remedial actions will be taken in instances where individuals are identified who have intentionally circumvented or overridden controls.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

- 4. Management did not comply with the state's policy governing payroll overpayments and did not notify the Comptroller of the Treasury of these overpayments, which totaled \$110,870**

Finding

Management of the Department of Correction did not take appropriate steps to recoup payroll overpayments totaling \$110,870 from four employees and did not notify the Comptroller of the Treasury of these overpayments as required by state policy.

The Department of Finance and Administration's Policy 11, entitled "Recovery of Overpayments and Other Debts Owed by Employees to the State," requires notification of such matters to the Comptroller of Treasury and states that "once an overpayment is discovered . . . [the] department should notify the employee in writing that an overpayment has occurred. A copy of this notification should be sent to the Comptroller of the Treasury . . ."

Our review revealed that the department had overpaid \$96,130 to three employees, but did not provide the Department of Finance and Administration with the necessary documentation to recoup the overpayments. These three employees were brought to our attention by a warden. During the period January 1997 through December 2001, these three correctional employees, as members of the Tennessee National Guard, volunteered to serve on the Governor's Task Force on Marijuana Eradication, which operates each year from May through October. During this period, the employees worked full-time with the task force and did not perform their

departmental responsibilities as correctional officers. However, these employees received payments for services from both the Department of Correction and the National Guard. In 1997, the new warden at West Tennessee State Penitentiary alerted the department's Assistant Commissioner for Administration of these potential overpayments. (The Assistant Commissioner for Administration who was contacted by the warden is no longer with the department.) The warden stated that this Assistant Commissioner sent a memorandum to the warden stating that no action would be taken due to the nature of the task force; however, no one in the department could locate this memorandum. Recently, the department asked the Department of Personnel to clarify the rules on military leave. The Department of Personnel responded that employees volunteering for the task force were not eligible for administrative leave with pay. The Commissioner then sent notification letters to the three employees and to the Department of Finance and Administration (F&A), Payroll Section regarding the overpayments. However, staff in the fiscal office failed to maintain all related time sheets and supporting calculations, thus F&A could not recover the overpayments.

We also noted a problem with a fourth employee. During our payroll testwork, we were notified by the Assistant Director of Fiscal Services that the department had incorrectly identified an employee as serving in Operation Enduring Freedom which resulted in a payroll overpayment of \$14,740. Operation Enduring Freedom was the military response to the September 11, 2001, terrorist attacks on the United States. To be eligible for special leave with partial pay, employees had to be physically deployed to Iraq or Afghanistan.

State of Tennessee Executive Order No. 4 issued on February 22, 2003, entitled employees serving in this Operation to special leave with partial pay. The purpose of the partial pay was to compensate the employee for the shortage between the employee's regular state salary and the employee's full time military salary. In fact, this employee never served in Operation Enduring Freedom, but was serving on active duty in Alaska.

Our testwork revealed that for the pay period February 15, 2004, through October 31, 2004, the department overpaid the employee by \$14,740 due to a clerical error when he was not eligible to receive the special leave with partial pay. Although the department had identified the overpayment in November 2004, and stopped payroll to the employee, a personnel officer only verbally notified the employee and did not submit the necessary paperwork to F&A to start the recoupment process. In addition, the department did not notify the Comptroller of the Treasury until July 7, 2005, seven months after discovering the overpayment. The overpayment has not been recovered, and as of May 6, 2005, the employee no longer works for the department which increases the difficulty of recouping the overpayment.

The purpose of F&A's policy to notify the Comptroller is to ensure a thorough investigation and appropriate resolution in the best interest of the state. The successful recoupment of salary overpayments is less likely when management does not react promptly when errors are discovered.

Recommendation

Management should assign specific personnel to ensure the timely collection of all payroll overpayments as outlined in Department of Finance and Administration Policy 11, including notification to the Comptroller of the Treasury. Documentation related to salary overpayments should be maintained until the recoupment is completed.

The Commissioner and Assistant Commissioner of Operations should review the results of this finding and take further steps to determine how broad these problems may be throughout the department. They should assess the overall risks these conditions represent to the department and the specific risks they present to the institutions in question.

The Commissioner should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls. When monitoring discloses problems, including the circumvention or overriding of the controls, appropriate, timely, and remedial actions should be taken. The risk assessment and the mitigating controls should be approved by the Commissioner.

Management's Comment

We concur. Fiscal payroll staff are responsible for ensuring the timely collection of payroll overpayments. Training on maintaining proper documentation has been provided to appropriate staff. The Commissioner will ensure that staff are identified to provide ongoing monitoring of compliance with all applicable requirements pertaining to the collection of payroll overpayments. Appropriate, timely and remedial actions will be taken in instances where individuals are identified who have intentionally circumvented or overridden controls.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

EQUIPMENT

The primary objectives of our review of equipment were to determine whether

- the department's procedures and controls over equipment were adequate;
- equipment was adequately safeguarded; and
- information for equipment located in the department's administrative offices in the Rachel Jackson Building was properly recorded in the Property of the State of Tennessee system (POST).

We interviewed Department of Correction personnel, observed equipment safeguards, and reviewed supporting documentation to gain an understanding of the department's procedures and controls over equipment and to determine whether equipment was adequately safeguarded. We selected a nonstatistical sample of equipment in the Rachel Jackson Building to determine whether the equipment information was properly recorded in POST. Equipment information included state tag number, description, location, and serial number.

Based on our interviews, observations, and reviews of supporting documentation, we determined that the department's procedures and controls over equipment were adequate and equipment was adequately safeguarded, in all material respects. However, based on our testwork, we determined that information for equipment in the Rachel Jackson Building was not always properly recorded in POST (see finding 5).

5. The department has not established adequate controls over the physical inventories of equipment to ensure the accuracy of the state's equipment records and has not reported lost or stolen equipment to the Comptroller's Office, increasing the risk of inadequate investigation of property losses

Finding

The Department of Correction has not adequately updated the Property of the State of Tennessee (POST) system to reflect accurate equipment information. In addition, the department did not report missing equipment items to the Comptroller of the Treasury as required. The department uses POST to maintain its equipment information such as descriptions, serial numbers, state tag numbers, acquisition costs, locations, dates of acquisition, funding sources, etc. Department of Correction Policy 206.01, entitled "State Personal Property" requires the department to follow the *POST User Manual*. The policy also requires the completion of an annual inventory and corrective entries in POST for equipment location changes.

During our current audit, we reviewed a sample of 65 equipment items which were identified in POST as located in the Rachel Jackson Building. We found the following problems:

- We were unable to locate seven sensitive equipment items (11%). These items included one printer, one 35 millimeter camera, one DASD (Direct Access Storage Device) controller, three external modems, and one handheld microcomputer.
- We identified 13 sensitive equipment items and 2 weapons (23%) with incorrect serial numbers recorded in POST. These items include one television, one video cassette recorder, three computers, one scanner, one video surveillance camera, one digital camera, two printers, two stun guns, and three external modems.
- We found 11 equipment items (17%) that were not in the Rachel Jackson Building as recorded in POST. Of the 11 items, 8 items were sensitive equipment items, 2 were weapons, and one item was an X-ray machine valued at \$24,998. All items were located at other office buildings or state prisons. These sensitive equipment items and weapons consisted of two printers, three computers, three televisions, and two stun guns.

In addition, we found that management did not report the seven missing equipment items to the Comptroller of the Treasury's office as required. For one of these items, a handheld computer which had been reported stolen from an employee, management did not obtain a police report as required by Appendix D of the *POST User Manual*.

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

It is 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.

Without an adequate inventory process in place, management of the department has not fulfilled its responsibility to ensure the state's equipment records are accurate and has not properly reported its equipment losses to the Comptroller's office as required. Furthermore, there is an increased risk of theft or abuse of the state's equipment when proper accountability for equipment is not enforced.

Recommendation

The Commissioner and the department's property officer should ensure that all equipment items are recorded in POST and that the information in POST is accurate and promptly updated in accordance with the *POST User Manual*. In addition, the department should ensure that losses are reported to the Comptroller of the Treasury immediately as required by state law. Management should include the risks noted in this finding in management's documented risk assessment.

The Commissioner should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure

compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

Management's Comment

We concur. The Commissioner will ensure that staff responsible for accounting of state property will implement processes and controls to ensure that information contained in POST is accurate, continually updated, and losses are promptly reported to the Comptroller's Office. Items of property identified during this audit as missing, in the wrong location or having incorrect information in POST have all been corrected.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

CONTRACTS

The department contracts for various services including medical and housing services for state felons. The objective of our review of the procedures and controls over contracts was to determine whether the department had properly executed contracts in place before contracted services were rendered. We interviewed Department of Correction personnel to gain an understanding of the department's procedures and controls over contracts, and we reviewed supporting documentation for these procedures and controls. We tested all contracts over \$1,000,000 in order to determine whether the department had properly executed contracts in place before contracted services were rendered. Based on our interviews, review of supporting documentation, and testwork, we determined that the department did not always have properly executed contracts in place before contract services were rendered (see finding 6).

- 6. Management has not assessed and mitigated the risks associated with failing to obtain all approvals for contracts before the beginning of the contract period and before expenditures were incurred, increasing the risk of the state being obligated to pay for unallowable services**

Finding

The Department of Correction did not obtain all required approvals for contracts before the beginning of the contract period. In addition, the department incurred expenditures on certain contracts before all required approvals were obtained.

Chapter 0620-3-3-.06(3) of the *Rules of the Department of Finance and Administration* lists the parties that must approve a contract. The Department of Finance and Administration's (F&A) Office of Contracts Review Service Contracting Policy .07b states:

No state official or employee, except the F&A Commissioner, may authorize a contractor to commence service before the subject contract is properly approved. If such authorization does occur, the procuring agency head may be held personally responsible and liable should it be necessary to pay for service provided in good faith without a valid, approved contract.

Our testwork on 13 contracts revealed that the Director of Contract Administration did not obtain approval by all parties before the beginning of the contract period for all 13 contracts. Staff completed the approval process from 3 to 131 days after the beginning of the contract period (an average of 40 days late). In addition, the Director of Contract Administration allowed 6 of the 13 contractors (46%) to commence services prior to obtaining all approvals and without the Commissioner of F&A's authority, and thus, incurred expenditures of at least \$841,000 before the contracts were fully approved. This amount was calculated by adding monthly vendor invoices where no approved contract was in place for the entire month.

Although the contractors provided services to the department, we determined that the department did not pay the contractors before the final approval was obtained. We determined this during our review of the contractors' invoices. Departmental employees stated that they had difficulties in getting all the approvals when required.

If contracts are not properly approved before the contract period begins and before services are rendered, the state could be obligated to pay for unallowable services.

Recommendation

The Commissioner should assign specific personnel to develop formal policies and procedures to ensure that the department's contract process is initiated far enough in advance to allow the contract to go through the proper channels of approval before the beginning of the contract period. The Director of Contract Administration should also obtain authorization from F&A for contractors to commence services when approvals cannot be obtained first and services are needed. Management should include the risks noted in this finding in management's documented risk assessment.

The Commissioner should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

Management's Comment

We concur. The Director of Contract Administration has assessed weaknesses in the process to establish department contracts, and has developed procedures to ensure that the department's contract process is begun in time to allow for all stages of contract establishment to occur within the allowed timeframe. In the future, when necessary, the Director of Contract Administration will obtain authorization from F&A for contractors to commence services when approvals cannot be obtained first and services are needed.

The Commissioner will ensure that risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the department's risk assessment. A review of our controls will be made to ensure that the department has the proper procedures in place and that these procedures are being followed to reduce potential fraud, waste, or abuse of government resources.

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, 2004, and June 30, 2003, 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; and
- 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*.

We reviewed the June 30, 2004, and June 30, 2003, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We reviewed the supporting documentation for the department's evaluation of its internal accounting and administrative controls. We also 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 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*.

OBSERVATIONS AND COMMENTS

MANAGEMENT’S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors’ risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management’s responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

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, 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 also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We 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.

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 Correction filed its compliance reports and implementation plans on June 30, 2004, and June 29, 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 Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.

APPENDIX

ALLOTMENT CODES

Department of Correction allotment codes:

- 329.01 Division of Administration
- 329.04 State Prosecutions
- 329.06 Tennessee Correction Academy
- 329.08 Wayne County Boot Camp
- 329.11 Brushy Mountain Correctional Complex
- 329.13 Tennessee Prison for Women
- 329.14 Turney Center Industrial Prison
- 329.16 Mark H. Luttrell Correctional Center
- 329.17 Charles B. Bass Correctional Complex
- 329.18 Southeastern Tennessee State Regional Correctional Facility
- 329.21 Hardeman County Correctional Facility
- 329.22 Whiteville Correctional Facility
- 329.32 Major Maintenance
- 329.41 West Tennessee State Penitentiary
- 329.42 Riverbend Maximum Security Institution
- 329.43 Northeast Correctional Complex
- 329.44 South Central Correctional Facility
- 329.45 Northwest Correctional Complex
- 329.46 Lois M. DeBerry Special Needs Facility
- 329.50 Sex Offender Treatment Program
- 329.98 Federal Construction Grants
- 329.99 1985 Sentencing Act