

# AUDIT REPORT

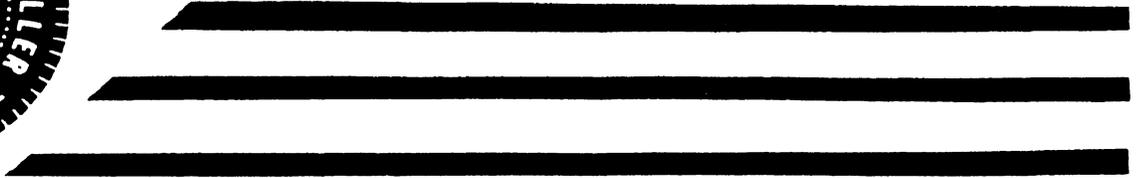
Department of Safety

February 2006



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**

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Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

February 28, 2006

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Gerald F. Nicely, Acting Commissioner  
Department of Safety  
1150 Foster Avenue  
Nashville, Tennessee 37249

Ladies and Gentlemen:

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

The review of internal control and compliance with laws, regulations, and provisions of contracts 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/kbt  
05/060



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

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July 22, 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 Safety for the period June 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 Safety's compliance with laws, regulations, and provisions of contracts significant to the audit objectives. Management of the Department of Safety is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Safety's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/kbt

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

**Department of Safety**

February 2006

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## AUDIT SCOPE

We have audited the Department of Safety for the period June 1, 2003, through June 30, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts in the areas of motor vehicle title and registration, fines and fees, administrative leave and terminations, computer application access and disaster recovery, equipment, expenditures, the confidential fund, secondary employment, driver training schools, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, 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; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

## AUDIT FINDINGS

### **The Department Did Not Have Written Procedures for Refunds of Reinstatement Fees**

Audit testwork revealed a lack of procedures regarding reinstatement refunds (page 19).

### **The Risks Associated With Inadequate Controls and Lack of Accountability Over Equipment Have Not Been Addressed\*\***

The department did not maintain proper accountability over equipment. The Property of the State of Tennessee manual contains

guidelines for safeguarding and accounting for equipment. However, the department did not adhere to the guidelines (page 28).

### **The Department of Safety Does Not Have a Disaster Recovery Plan for Applications Not Run From the Data Center**

The Department of Safety does not have a disaster recovery plan for applications not run from the Office for Information Resources (OIR) data center to provide for the continuity of operational functions in case

its applications are destroyed. The objective of such a plan is to provide reasonable continuity of data processing if normal operations are disrupted (page 24).

**The Department Did Not Submit a Title IX Implementation Plan\***

The department has not submitted a Title IX implementation plan to the Comptroller's office each year, even though the department conducts a training program that is open to the public (page 36).

**The Risks Associated With Cash Receipting Procedures and Controls at the Driver's License Stations Have Not Been Adequately Addressed, Controls Over Driver's License Renewals Need Improvement, and Several Cash Receipting Offices Did Not Develop Required Written Cash Receiving Procedures\*\***

Audit testwork revealed several internal control problems over cash receipting and driver's license renewal procedures (page 14).

**Management Did Not Mitigate the Risks and Implement Effective Controls Over Interactive Vehicle, Title, and Registration Internet Revenue**

Auditor inquiry revealed that the department staff attempted to reconcile March 2005 counts of inquiries according to Safety's

system against records from Tennessee Anytime. However, the identified differences were not explained. The lack of completed reconciliations has caused the department not to know if it has received all the money it is due from Tennessee Anytime (page 11).

**Management of the Department Still Did Not Mitigate the Risks of Fraud, Waste, and Abuse Relative to Motor Vehicle Registration Revenue Collections\*\***

The Motor Vehicle Title and Registration Division does not reconcile inventory reports of distributions of vehicle plates and decals with the revenue received from the County Clerks for sale of these items. This issue was first noted in the audit for years ended June 30, 1989, and June 30, 1990 (page 6).

**The Department of Safety Has Not Properly Monitored Employees' Access to the Driver License System and the Tag and Vehicle Inquiry System\***

Testwork revealed that the department did not ensure that appropriate access forms were maintained and did not have security agreements with all external users (page 22).

\* This finding is repeated from the prior audit.

\*\* This finding is repeated from prior audits.

# Financial and Compliance Audit Department of Safety

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# Financial and Compliance Audit Department of Safety

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

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

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

### BACKGROUND

The mission of the Department of Safety is to provide effective, customer-friendly services and to protect the citizens and visitors of Tennessee. Of the divisions which support the commissioner and his staff, the following divisions are most in contact with the public:

- Capitol Police are responsible for patrolling and securing state buildings and grounds surrounding the capitol.
- Highway Patrol is responsible for enforcing motor vehicle and driver’s license laws; investigating traffic accidents; providing motorists with assistance; and enforcing commercial vehicle laws on size, weight, and safety requirements. In addition, the highway patrol also provides instructions for all school bus drivers and conducts safety inspections on school and other buses.
- Executive Security provides security for the Governor and associated parties.
- Criminal Investigations investigates auto thefts, stolen vehicle parts, and odometer fraud.
- Special Operations consists of the Tactical Squad and the Aviation Unit and is responsible for special assignments such as bomb threats, VIP security, drug searches and seizures, and prisoner escapes.
- Driver’s License Issuance administers oral, written, and road tests and issues and renews driver’s licenses.

- Motor Vehicle Title and Registration issues vehicle titles and registrations for all vehicles in Tennessee.
- Law Enforcement Training Academy provides basic law enforcement training for all state and local law enforcement officers.

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

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## AUDIT SCOPE

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We have audited the Department of Safety for the period June 1, 2003, through June 30, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts in the areas of motor vehicle title and registration, fines and fees, administrative leave and terminations, computer application access and disaster recovery, equipment, expenditures, the confidential fund, secondary employment, driver training schools, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, 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; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

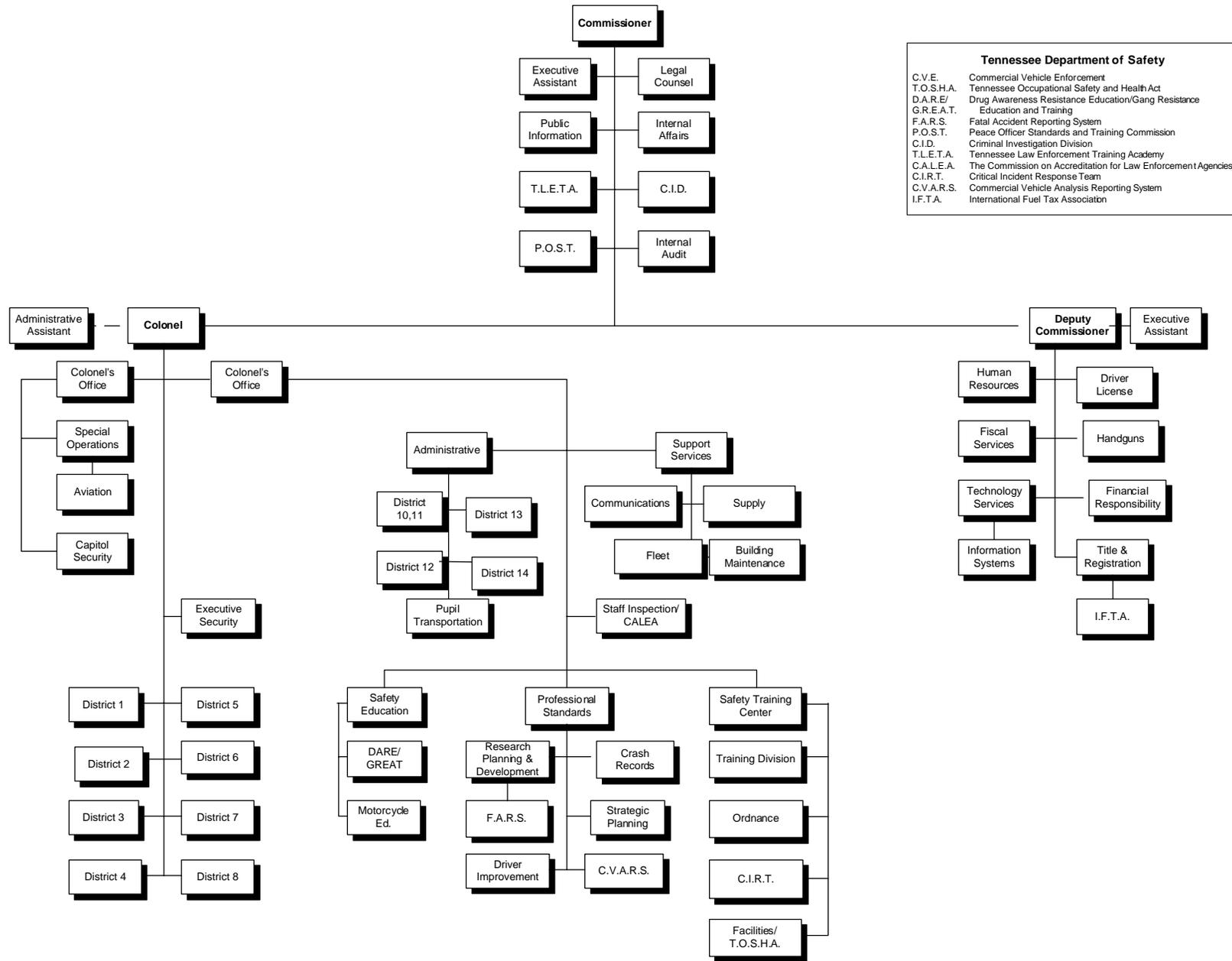
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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Safety filed its report with the Department of Audit on January 23, 2004. A follow-up of all prior audit findings was conducted as part of the current audit.

# Department of Safety Organization Chart



## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Department of Safety has corrected previous audit findings concerning

- the department's failure to notify the Comptroller's office of gross misconduct;
- returned checks not posted timely;
- controls over secondary employment;
- physical controls over the Foster Avenue computer room;
- reconciliation of on-line driver's license renewals;
- monitoring of driver training schools; and
- the failure to verify rosters of officers seeking salary supplements.

## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning

- the department's failure to monitor employee access to computer applications;
- inadequate controls over equipment;
- cash receipting procedures at the driver's license stations;
- inadequate controls over the reconciliation of motor vehicle plates and decals;
- the department's failure to submit a Title IX implementation plan; and
- accidents and violations not posted to driver's license records timely—this finding has been repeated in a performance audit report issued by the Division of State Audit released in April 2004.

These findings have not been resolved and are repeated in the applicable sections of this report.

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

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### **MOTOR VEHICLE TITLE AND REGISTRATION**

The objectives of the motor vehicle title and registration testwork were to determine whether

- controls over the processing of Motor Vehicle Title and Registration receipts were adequate;
- revenue allocation information was properly reported to the Department of Revenue;
- significant variances in the annual amount of motor vehicle registration collections were adequately explained;
- the daily invoice remittance reports submitted by the county clerks were submitted timely or included a notification letter if submitted late and included detailed information regarding the numbers of the titles and registrations issued;
- the inventory reports of temporary operator permits and drive out tags revenue received and reconciled to cash deposits for June 2003 and June 2004 were properly reconciled and that the amounts shown on the reports traced or reconciled to supporting documentation;
- the controls over accountability of vehicle registration decals and revenue were adequate; and
- refunds were only issued for allowable purposes, were properly calculated, and the requests were approved only when filed within six months from the date of the overpayment.

We interviewed management to gain an understanding of the controls over the processing of Motor Vehicle Title and Registration receipts and to determine if controls were adequate. We performed an analytical review of Motor Vehicle Title and Registration fees collected in the fiscal years ending June 30, 2004, and June 30, 2003, and determined if revenue allocations were properly reported to the Department of Revenue. We also compared collections for each class of motor vehicle registration for each of the two fiscal years, and obtained and verified explanations for any significant variances. We tested a nonstatistical sample of county clerk daily invoice remittance reports from June 1, 2003, and March 1, 2005, to determine if the reports were received timely and the reports included the information of the numbers of the titles and registrations issued. We also determined that notification letters were submitted if required. We reviewed the inventory reports of temporary operator permits and drive out tags revenue received and reconciled to cash deposits for June 2003 and June 2004 to determine if the reconciliations were properly prepared and that the amounts shown on the report traced or reconciled to supporting documentation. We interviewed management to gain an understanding of the procedures and controls over the accountability for vehicle decals and determined if procedures and controls were adequate. We also visited the Lake County Clerk's office to determine if the county clerk could account for all decals received from the Department of Safety. We selected a nonstatistical sample of refunds during June 1, 2003, and April 30, 2005, and tested each to determine if the refund was for proper purposes, the refund was properly calculated, and the refund request was approved only if the person filed the request within six months of the overpayment.

Based on our discussions and the testwork, we concluded that

- controls over the processing of Motor Vehicle Title and Registration receipts were not adequate (see finding 1);
- revenue allocation information was properly reported to the Department of Revenue;
- significant variances in the amount of motor vehicle registration collections were adequately explained;
- the daily invoice remittance reports submitted by the county clerks were submitted timely or included a notification letter if submitted late, and included information of the detail numbers of the titles and registrations issued;
- the inventory reports of temporary operator permits and drive out tags revenue received and reconciled to cash deposits for June 2003 and June 2004 were properly reconciled and the amounts shown on the reports traced or reconciled to supporting documentation;
- the controls over accountability of vehicle decals and revenue were not adequate, as discussed further in finding 2; and
- refunds were only issued for allowable purposes, were properly calculated, and were only approved if the request was filed within six months of the overpayment.

**1. Management of the department still did not adequately mitigate the risks of fraud, waste, and abuse relative to motor vehicle registration revenue collections originally identified by the auditors 16 years ago**

**Finding**

As noted since 1989, the Department of Safety's Motor Vehicle Title and Registration Division has not reconciled inventory reports of distributions of vehicle plates and decals with revenue received from the county clerks for sales of these items.

The auditors identified the risks associated with the department's failure to reconcile motor vehicle plates and decals issuances with revenue received. The collection of vehicle plate and decal revenues is inherently risky because of the decentralized nature of the collection process. Because the department has not effectively mitigated its risk by reconciling motor vehicle plates and decals to revenue collected, it is possible that the county clerk could issue a vehicle registration, collect the fees, fail to enter the vehicle registration renewal into the system, and retain the fees that should be sent to the state. This issue was first noted in the audit for years ended June 30, 1989, and June 30, 1990. In response to that audit, management stated:

. . . The computer program which is designed for this process has never worked efficiently. It is an expensive and cumbersome task to do this reconciliation. Recently the consultants who reviewed our operation suggested that we abandon that program in favor of the one in the new TWVIS system which we are seeking. However, on a sample basis we shall attempt to reconcile these inventories to

remittances received from the county clerks during the coming year. Several other changes that we have made to programs of our present system have enhanced the present inventory system. County clerks are instructed on page 2 of their manual to submit inventory reports on June 30, September 30, and December 31. Close-out inventories are required on the last day of February for trucks and March 31 for all other classifications. We suggest that county clerks take monthly inventories. However, they are required to submit them only on the dates indicated. We began reconciling temporary operation permit and drive-out tag issuances with the related revenue received in October 1991.

However, in the audit for years ended June 30, 1991, and June 30, 1992, we reported that the department had not enforced the requirement that county clerks submit quarterly inventory reports as set forth in the existing policies and procedures manual. Management concurred with that finding and stated:

. . . The Division of Titling and Registration is designing a new inventory system in conjunction with our systems division at this time, and it will be ready for the new plate issuance beginning January 1994. At that time we will be in a position to appropriately reconcile inventory reports.

In the audit for years ended June 30, 1993, and June 30, 1994, we reported that the new system was still not functional. Furthermore, we again noted that the department still had not enforced the requirement that county clerks submit quarterly inventory reports as set forth in the existing policies and procedures manual. Management again concurred with that finding and stated:

. . . A computerized system is being tested to provide an inventory system that will track all registration plates, decals, and any numbered items from the time of manufacture to the destruction of the plate. This system is scheduled to be implemented by January 1, 1996. The County Clerks will be notified to submit quarterly reports as set forth in the policies and procedures manual. Procedures are being implemented to provide a means of verifying the inventory of County Clerks by performing a random audit of the actual inventory against the inventory reports provided by the County Clerks. This system will be monitored by top management to ensure that it is adequate and fully implemented.

In the audit for years ended June 30, 1995, and June 30, 1996, we reported that according to management, no progress had been made and the new system was still not functional. Furthermore, the department still had not enforced the requirement that county clerks submit quarterly inventory reports as set forth in the policies and procedures manual. Management concurred with that finding and stated:

. . . We realize the importance of a system for accountability over plates and decals issued. However, our present computer system is over twenty (20) years old and will not accommodate the changes necessary to facilitate a comprehensive

inventory accounting system. We will attempt to reconcile plates and decals to revenue received manually on a sample basis. A letter was mailed to each clerk notifying them of the changes in reporting deadlines. These changes will be included in the next revision of our policies and procedures manual.

However, in the audit for years ended June 30, 1997, and June 30, 1998, we reported that no manual reconciliations were performed and the computer system was still not capable of performing the inventory reconciliation. Management concurred with that finding and stated:

. . . One of the most important features of our new motor vehicle computer system will include an inventory of license plates and decals that can be reconciled. Until that time a manual reconciliation is practically impossible. However, the Internal Audit Division did physically inventory license plates and decals in several counties in this past year. Also, the Internal Audit division will reconcile remittances from the county clerks with county inventories as time permits. Further, the Motor Vehicle Title and Registration Division has diligently sought and acquired quarterly inventory reports from all ninety-five county clerks and will continue this practice until a central computer system maintains and reconciles license plates and decals.

In the audit for years ended June 30, 1999, and June 30, 2000, we reported that based on the results of audit testwork, no manual reconciliations were performed, the current computer system was still not capable of performing inventory reconciliations, and the new system was not operational. Management concurred with that finding and stated:

We will attempt to reconcile remittances from the county clerks to their inventory on a sample basis until the new motor vehicle computer system is in place.

In the prior audit covering July 1, 2000, through June 16, 2003, we reported management began a monthly reconciliation of the two smallest counties but decided that the effort was too time-consuming. The new system was still not operational, and the department did not know when the new system would be operational.

Management concurred with that finding, and stated they would “attempt to periodically reconcile with each county’s inventory given the limitations of the current computer system and available manpower.” During current fieldwork, we determined that management had not completed such a reconciliation. Discussions with management revealed that these efforts were directed toward a new system that would better account for these items. According to management, the new system would allow for better tracking and reporting of this information, and that the phase of the new system that has an inventory component is scheduled to be implemented October 4, 2006.

If the Title and Registration Division does not periodically reconcile the remittances from the sales of vehicle registration decals by the county clerks with each county’s reported

inventory or implement the new system, the department cannot be assured it has received all the revenue it is due.

The current audit also noted a new issue. When the Department of Safety's Title and Registration warehouse issues vehicle decals to the County Clerks' offices, it does not always maintain records to ensure the accountability for decals issued. Ideally once the department's staff issues decals, the county clerks' offices should inspect the decals for any damage, defects, missing numbers, etc. After inspecting the decals, the county clerk should sign the shipping ticket indicating that all of the decals have been received, thereby accepting responsibility for the series of decals. The shipping ticket should be returned to the warehouse. During fieldwork, we observed that the warehouse did not have all the shipping tickets representing all the decals issued and thus could not affix responsibility for decals included in the shipment that might be lost or stolen. During fieldwork, management stated that sometimes county clerks would not return shipping tickets because the clerks would need time to inspect the delivery.

### **Recommendation**

The Commissioner should carefully consider the governance implications relative to the long history of this finding, the substance and nature of prior management responses, including failure of the department to take the steps management said would take place in prior responses.

The Commissioner and top management should develop a plan to adequately address the risks first noted in our audit 16 years ago. As a part of the plan, the Commissioner and top management should ensure that staff responsible for these motor vehicle operations engage in an adequate assessment of other risks of fraud, waste, or abuse in this area. That assessment should be written and fully documented. It should be reviewed by top management and should be used to design, implement, and monitor the controls to mitigate the risks identified. The Commissioner and the Director of Motor Vehicle Title and Registration should continue to pursue the new system which will allow the department to reconcile the distribution of motor vehicle plates and decals in each county with revenue collected. The Commissioner should consider redesigning the shipping tickets to require county clerks to report any discrepancies to the department within a certain number of days and require county clerks to sign this form upon delivery. The Commissioner should ensure that the warehouse receives shipping tickets for all decal shipments.

Management should continue to ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls over motor vehicle operations to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and for taking prompt action should exceptions occur.

## **Management's Comment**

We concur. Throughout the last sixteen years, several leaders have attempted to resolve this area of weakness through manual reconciliation practices, all of which were dependent on hard copy documentation from the point of production to the point of sale.

The current computer system in use for the last sixteen years to provide title and registration services never included cash or inventory capabilities. Nor did it account for decentralized points of sale in the ninety-five counties. Adding to the deficiencies of the current system stated above is that the point of manufacture is performed by TRICOR, not the department. TRICOR also does the shipping and distribution of the plate and decal inventory. The county clerks, who order stock as needed, do so by contacting the Title and Registration Warehouse, which is under the direction of the Support Services Division.

Therefore, current management has determined that the solution must include the Title and Registration and Support Services Divisions of the Department of Safety, and TRICOR to address the limitations of the current computer system. Previous efforts have failed or fallen short of satisfying this audit finding due either to the massive workload volume of manual reconciliation required in comparison to staff available to complete the tasks, or failed attempts to design and implement computerized systems capable of electronically handling the process. To complicate the objective even further, county clerks independently contract with software vendors for the processing of registration information and then batch update to the state mainframe.

In 1999 a funding mechanism for design and development of a new computerized system containing cash and inventory capabilities was created. The contract to complete the project was awarded to Covansys Corporation. This effort, too, proved unsuccessful and upon contract expiration in August 2004 the Department of Safety and the Office of Information Resources assumed management of the project, known as TRUST, and moved forward with a phased design model which is currently being developed and implemented. The cash and inventory segments of the system are in phase 5 of the project and are dependent on the implementation of previous phases. Phase 1 has been completed and implemented. Phase 2 is currently being deployed and is forming the hardware and communications foundation needed to support real-time communications. Phases 3, 4 and 5 are all in various stages of design and implementation.

Shortly after the reduction of staff in the Division in 2003 to forty-one (41) permanent and temporary employees, the Division came under new direction and additional manual reconciliation attempts and tests to resolve this finding were attempted but were unsuccessful.

As with previous attempts to manually reconcile inventory, additional attempts proved to be impossible with resources available. Procedural changes and interim solutions have improved the process, but the true resolution to this finding is electronic control and management of inventory. The targeted pilot date for the point of sale and inventory portions of the computer system is January 2007. The project is currently progressing on target.

TRICOR, who is responsible for manufacturing and distribution, has already converted to the digitized license plate production system, which includes inventory capabilities, and has extended their partnership with the Title and Registration division to address distribution and electronic delivery confirmations. Further cash and inventory development plans include the use of bar coding and scanning technology as well as electronic signature capabilities. The new 2006 license plate design is evidence of this development and has a bar code printed on each new license plate. It will take at least five years to convert all plate types to this format due to the vastness of the license plate system. Renewal decals issued in 2007 will utilize this technology and will contain bar codes to facilitate inventory and reporting reconciliation requirements. In addition to technological developments currently underway, the contract with the county clerks will be amended to require them to notify the Title and Registration division of discrepancies identified in plate and decal deliveries.

In summary, the department will continue to work with OIR to develop the new TRUST system, which we believe will be the ultimate solution for correcting the above deficiencies. The Director of the Title and Registration Division will be responsible for developing a plan to adequately address the risks first noted in the audit 16 years ago and to direct efforts to engage in an adequate assessment of other risks of fraud, waste, or abuse in this area.

**2. Management did not assess and mitigate the risks and implement effective controls over Interactive Vehicle, Title, and Registration Internet Revenue, and therefore cannot be certain the state has received all the money it is due**

**Finding**

The Department of Safety has not mitigated the risk and implemented effective controls over the receipt of Interactive Vehicle, Title, and Registration Internet revenue. The Department of Safety receives money when subscribers access and query the state's Internet web page for Vehicle, Title, and Registration information. Subscribers to the service may, for a \$2.00 fee, search the department's database by license plate number or Vehicle Identification Number (VIN) and obtain information about a vehicle. The state's web portal contractor, Tennessee Anytime, collects the fees from these transactions and pays the Department of Safety.

According to department records, the department received approximately \$10,000 a month from Tennessee Anytime for this information for the year ended June 30, 2005. It is therefore imperative that the department be able to readily determine the number of Internet inquiries so that it can ensure the state receives revenue it is due from Tennessee Anytime.

Our review revealed that the department staff attempted to reconcile the number of March 2005 inquiries according to the Department of Safety's system against records from Tennessee Anytime. However, the department could not explain the differences identified in Safety's system and Tennessee Anytime records. Because the department has been unable to reconcile the number of inquiries with revenue received, it cannot be certain that the state has received all the money it is due from Tennessee Anytime.

## **Recommendation**

The Director of Title and Registration should assess and mitigate the risks associated with collections from Tennessee Anytime by implementing compensating controls to address the risks. These controls should ensure that reconciliations are completed for all months. Any discrepancies between Tennessee Anytime and the Department of Safety's system should be investigated, documented, and corrected. The results of those reconciliations should be made readily available for review by upper management and any staff charged with monitoring the controls over these risks.

Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls over revenue collections to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

## **Management's Comment**

We concur. Designated staff of the Title and Registration division will perform a reconciliation of the Interactive Vehicle, Title, and Registration Internet (IVTR) report to a summary report from the Information Systems division. Any discrepancies between Tennessee Anytime and the Department of Safety's system will be investigated, documented, and corrected. The results of those reconciliations will be available for review by upper management and any staff charged with monitoring the controls over these risks.

Title and Registration management will identify specific staff to be responsible for the design and implementation of internal controls over revenue collections to prevent and detect exceptions timely. Management will also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

We will implement this recommendation by April 1, 2006.

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## **FINES AND FEES**

The objectives of the fines and fees testwork were to determine whether

- controls over the receipt of fines and fees at the Foster Avenue offices in Nashville were adequate;
- cash receipting procedures at driver's license stations were adequate;
- cash receipting procedures at State Trooper District Offices were adequate;

- deposits made by State Trooper District Offices agreed to receipts, were in compliance with Department of Finance and Administration Policy 25, and all receipts agreed with the deposit;
- driver's license renewals traced or reconciled from the customer database to the deposit;
- license reinstatements were properly documented, and the amount received and deposited for the reinstatement traced or reconciled from the documentation in the Financial Responsibility Division;
- procedures regarding reimbursement of driver's license reinstatement fees were adequate;
- traffic violations and accident reports were posted timely to the driver's records;
- controls over on-line driver's license renewal revenue were adequate; and
- the department promptly posted returned checks to the department's history file and if there was proper follow-up with the person or company that wrote the bad check.

We interviewed management at the Foster Avenue offices and at all 44 driver's license testing centers to gain an understanding of the controls and procedures used to ensure that cash is properly receipted. With the State Trooper district offices, we interviewed staff at each of the offices to obtain an understanding of procedures regarding cash receipts. We also selected a sample of deposits made by the State Trooper district offices and determined if the deposits were in compliance with Department of Finance and Administration Policy 25, all receipts between the beginning and receipt number were accounted for, and the total of the receipts agreed with the deposit. We selected a sample of driver's license renewals from the driver's license system and tested these renewals to determine if the amount paid for the renewal could be traced or reconciled to a deposit. We selected a sample of driver's license reinstatements with transaction dates between June 2003 and April 2005 and tested them to determine if the documentation in the Financial Responsibility Division related to the reinstatement was proper and the amount paid for the reinstatement could be traced or reconciled to a deposit. We discussed procedures regarding reimbursement of driver's license reinstatement fees with management. We discussed procedures to post accidents and violations to driving records with appropriate staff. We inquired of management about the controls over revenue received through the Internet for driver's license renewals. We selected the 25 largest returned checks that the department received from June 17, 2003, through February 9, 2005, and determined if the checks were promptly posted to the department's history file and if there was proper follow-up with the person or company that wrote the bad check.

As a result of our discussions and testwork, we concluded that

- controls over the receipt of fines and fees at the Foster Avenue offices in Nashville were adequate;

- cash receipting procedures at driver's license stations were not always adequate (finding 3);
- driver's license renewals traced or reconciled from the customer database to the deposit;
- license reinstatements were properly supported and traced or reconciled from the documentation in the Financial Responsibility Division to the deposit of the fine connected with the reinstatement;
- there were not adequate written procedures regarding reimbursement of driver's license reinstatement fees (see finding 4);
- traffic violations were posted timely, but accident reports were not always posted timely to the driver's records, a finding that was reported in a performance audit report issued by the Division of State Audit issued on April 12, 2004;
- controls over on-line driver's license renewal revenue were adequate; and
- the department promptly posted returned checks to the department's history file and that there was proper follow-up with the person or company that wrote the bad check.

**3. The risks associated with cash receipting procedures and controls at the driver's license stations have not been adequately addressed, controls over driver's license renewals need improvement, and several cash receipting offices did not develop required written cash receiving procedures**

**Finding**

As noted in the prior audit, management of the Department of Safety has not adequately addressed the risks associated with its cash receipting procedures and controls at the driver's license stations. Management concurred with the prior finding and stated:

. . . The Director of Fiscal Services will monitor the timeliness of each driver license station's reconciliation of applications to fees received and report the stations not submitting timely reconciliations to the Director of the Driver License Division. The Director of Internal Audit will make more unannounced visits to driver license stations on a regular basis. These visits will include cash counts, review of the daily reconciliations, observation of cash-receipting duties, observation of procedures used to secure cash overnight, and an evaluation of the number of staff with access to cash.

**MANAGEMENT AND INTERNAL AUDIT OVERSIGHT**

Based on our discussion with the Director of Internal Audit, the Office of Internal Audit visited only 3 of the 44 driver's license stations during the audit period. According to the

Director, the primary objective was not to test the effectiveness of the controls. The Director of Internal Audit also stated that he and his staff were not able to visit more stations because of the travel time required. In addition, the Director also expressed concerns that he did not want to create delays for drivers attempting to obtain or renew their licenses, by performing internal audits at the stations. Also, the director indicated that he had been assigned responsibility to assist with the development of the new driver's license system.

We also discussed the department's oversight responsibilities with an Assistant Director of Driver License Issuance. Based on that discussion, the Assistant Director indicated that the department needed to provide more oversight of the driver's license stations. The Central Office relies on the District Supervisors to ensure critical procedures are followed by the driver's license stations. It was noted during fieldwork that there were currently eight District Supervisors positions; however, four positions are vacant.

Without adequate oversight and monitoring of the procedures and controls at each driver's license station, management cannot ensure proper scrutiny and accountability of the risks associated with the driver's license issuances and revenue collections.

#### FUNDS WERE NOT SECURED AT THE CHATTANOOGA DRIVER'S LICENSE STATION

During fieldwork, it was discovered that staff in the Chattanooga Driver's License Station routinely kept large amounts of money in an unlocked drawer in the branch manager's office. The money on hand represented the amounts collected by the station after the previous day's armored car pick-up through closing of business that day. According to staff at the station, the armored car typically comes around 3:00 p.m. each day. Furthermore, although the station had a safe in that same office, our inquiry revealed that staff routinely did not use the safe during the day to secure the funds. Instead, the money was kept in an unlocked drawer because staff indicated they wanted easy access to the cash to make change for daily business needs. Staff also indicated that this had been the procedure for a number of years.

The failure to secure cash represents a serious internal control risk and directly resulted in a theft of funds on March 8, 2005. The funds were taken by an employee of the contractor providing professional cleaning services to the station. A portion of the missing funds was later recovered from the contracted employee. The remaining funds were later reimbursed to the state by the contractor.

#### ISSUES WITH POLICIES AND PROCEDURES

##### Noncompliance With the Department's Funds Management Policy

Our testwork at the Cleveland Driver's License Station revealed that the money collected from reinstatement fees is secured by a lock box. However, this lock box sits on the counter and could be easily removed and concealed on a person leaving the work site.

The General Principles, Funds Management Policy, #2 states, “During the day, cash not in the register(s) must be kept behind two locks: (1) the bank bag, and (2) a lock box, locked file cabinet or locked desk drawer. . . .” After the Branch Supervisor responsible for this station was made aware of the violation of policy, she initiated a change in procedure to secure the funds in a cash register drawer.

#### Driver’s License Stations Made Split Deposits Without Approval

Testwork revealed that at six driver’s license stations (Jasper, Trenton, Elizabethton, Summer Ave. in Memphis, Whiteville, and Millington) employees split one day’s deposits into multiple deposits without approval. Split deposits occur when staff at the driver’s license stations deposit a portion of the business day’s receipts on one day and the remainder on another day.

According to staff at some of the driver’s license stations which made split deposits, the deposits were split to avoid putting employees at risk by depositing large sums of cash after business hours. While these concerns may be perfectly valid, the Department of Safety’s General Principles Funds Management Policy 3.2 states:

Stations must be authorized to do “split” deposits. Without express approval from central office, stations are required to make a full night deposit.

None of these stations could provide written approval from the central office to approve the practice of making split deposits. In addition, central office staff could not provide a listing of all the stations that were authorized to make split deposits.

#### Inconsistent Procedures for Collecting Funds

The driver’s license stations had inconsistent procedures for collecting funds from customers taking their driver’s license tests. According to Department of Safety management, to take the driver’s license examination, an individual must pay a fee of \$3.50 per year, plus a \$2 application fee. If the individual fails the examination, the \$2 application fee is retained by the department. Testwork revealed that some of the driver’s license stations collect the entire fee before giving the test and then issue the person a refund of all the funds except the \$2 application fee if they do not pass. Other stations only collect the \$2 application fee before giving the test and then collect the remainder of the fee when the person passes the test. Also, some stations do not collect any money before giving the test. They collect the proper fee after the test is passed or failed. We also found cashiers at one station who collect the fees different ways (either fees are collected up front or are collected after the test is passed.) Based on discussions with management, the preferred procedure is to collect the entire fee upfront and issue the \$2 refund as necessary.

### Inconsistent Procedures for Funds Sent With Armored Car Service

To help address the issues noted in the prior year's audit finding, management of the Department of Safety acquired armored car services for some of the state's highest volume driver's license stations. Normally the armored car visits the station in the early afternoon and picks up the day's deposits. However, for those stations using the armored car service, some stations would only send cash with the armored car service while other stations would send both cash and checks. At the Knoxville West 40 Station, the armored car service picks up only the previous day's deposits and none of the current day's receipts. The money received for the current day was secured overnight in a safe.

### Some Stations Were Not Current With Daily Reconciliations

At nine driver's license stations (Lebanon, Dickson, Lawrenceburg, Gallatin, Adamsville, Hart Lane, Dresden, Summer Avenue, and Nashville Downtown Express) the stations did not have the most recent daily reconciliation of license renewals to cash collected as required by policy. Stations are required to reconcile driver's license renewal applications to fees received for each day's business based on Infopac reports of each station's daily transactions. The General Principles Section 6.1 of the Funds Management Policy which is part of the *Driver License Supervisor's Manual* states, "Reports are to be prepared within one business day after the Infopac Report is available to the station."

### Written Procedures to Handle Cash Not Prepared

There are eight Tennessee Highway Patrol Stations that receive cash. General Order 202, V. A.1. states, "Each location where money is collected, stored, or deposited, must develop detailed written procedures which address the responsibilities . . ." Based on discussion with employees at the highway patrol stations, six stations did not have a written procedures. In addition, neither the Memphis Driver's License Office nor the Foster Avenue Driver's License Reinstatement Office had written procedures.

As evidenced by the above items, management of the Department of Safety has failed to ensure that staff have followed established policy and procedures; has failed to mitigate risks by establishing and communicating uniform policies and procedures for some aspects of the cash receipting process; and has failed to mitigate the risks of fraud, waste, and abuse associated with cash receipting, depositing, cash reconciliations, and securing cash in the driver's license stations.

## **Recommendation**

Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should carefully consider whether there are more risks than those identified by the external auditors. Management should identify specific staff to be responsible for the design and implementation of

internal controls over cash receipting to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

The Commissioner should ensure the Director of Internal Audit performs audits of all the driver's license stations on a routine basis. These audits should include risk assessments of the areas associated with cash and cash receipting procedures. The Commissioner should ensure adequate management oversight is given to the operations of the driver's license stations. To prevent fraud, waste, or abuse of cash, the Branch Supervisors should evaluate and monitor the cash receipt and deposit practices in their regions to ensure controls are in place. The Commissioner should ensure that the Director of Driver's License Issuance develops uniform policies and procedures and eliminates the inconsistencies in the areas noted in this finding. The Commissioner should ensure that each office that receives cash develops written procedures required by General Order 202, and that all the stations have the appropriate means to secure cash which is not deposited. The Commissioner should also ensure that cash collected is reconciled timely with system reports.

### **Management's Comment**

We concur. The Driver License Central Office is responsible for ensuring that the risks identified in the finding as well as any other risks are adequately identified, assessed and documented. This office is also responsible for the design and implementation of internal controls over cash receipting to prevent and detect exceptions in a timely manner. The front line supervisors at the individual driver's license stations are responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. The Branch Supervisors will evaluate and monitor the cash receipt and deposit practices in their regions to ensure established controls are in place and are being followed.

Internal Audit will use the IFTA/IRP field auditors to perform audits of the driver's license stations. Using these field auditors, Internal Audit can audit 22 driver's license stations each year. The audits will include risk assessments of the cash receipting and storage procedures.

The Driver License Central Office is in the process of modifying the policies and procedures manual to reflect recent changes in the processing of driver's licenses. Now that a cashiering system has been implemented at all driver's license stations statewide, the modified policies and procedures will be consistent with the requirements of the cashiering system. These changes will be communicated to all 44 driver's license stations to eliminate inconsistencies in the processing of driver's licenses.

The requirements of General Order 202 are being addressed by the THP district offices, who are adopting the detailed plan used by the Jackson district office for the collection, storage and depositing of funds. The Memphis and Foster Avenue Reinstatement Offices have documented the procedures used in the collection, storage and depositing of funds. Driver

License procedures will be addressed when the modification of the Funds Management policies is completed.

Driver License management has reviewed with all supervisory personnel the importance of preparing reconciliation reports in a timely manner. The implementation of the new cashiering system will automate some of the current manual reconciliation processes which will assist our supervisors in meeting the time line requirements in the policy.

The policies and procedures addressed in this recommendation will be implemented by April 1, 2006.

#### **4. The department did not have written procedures for refunds of reinstatement fees**

##### **Finding**

The department did not have written procedures for refunds of reinstatement fees. During fieldwork, we noted that the Department of Safety refunded driver's license reinstatement fees for individuals who have had their license revoked if they provide documentation that they have never received a notification from the Department of Safety indicating that their license would be revoked. This documentation might include evidence that the address in the department's information system is incorrect.

According to staff, before the department revokes an individual's license, the department sends the individual a notice 30 days prior to the revocation of the driver's license. This notice is sent to the address the individual has on file with the Department of Safety. However, if the address recorded in the system is incorrect, the individual may not receive the notice.

Currently, the Department of Safety allows individuals to update addresses through the Internet, a phone call, or a visit to a driver's license station. To obtain an address change through any of these methods, the individual is required to give basic information such as driver's license number and social security number. However, any changes requested by the individual are made to the system without any further verification of the identity of the person requesting the change.

Based on discussion with staff, it often appeared that the department's primary objective was to be friendly to citizens and not create a bureaucracy over changing an address. Although this may be a perfectly valid objective, the lack of accountability over address changes makes it more difficult to determine if address changes were made legitimately and that those claiming refunds are actually due the refund.

Our audit work revealed that although the department's system flags the address record of where the change originated, the flag indicates only that the change occurred on the Internet, through post office matches, or was made by an employee. If it is a change made by an employee and a license was printed as a result of the change, then the user ID of the person making the change is captured. However, if a new license is not printed, then the department

must go to system logs to determine who made the change. These logs are maintained for only one year; therefore, the department cannot determine who made the change if it occurred on the Internet.

The lack of policies and procedures regarding this type of transaction could lead to inconsistencies in the documentation required and in identifying exact situations where this type of transaction may or may not be appropriate.

### **Recommendation**

If the Commissioner of the Department of Safety determines that the practice of refunding these transactions is a needed practice, he should ensure that adequate policies and procedures are developed. These procedures should include at a minimum the criteria, documentation required, required approvals, and the time frames for applying for the refund. Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls over refunds to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

We concur. The Financial Responsibility Division has established procedures for the refunding of reinstatement fees. The procedures outline the reasons a refund may be made and the requirement that the refund be approved by a supervisor. The refunds will be reviewed periodically by the Director of Financial Responsibility or designee. The Director of Financial Responsibility is responsible for the design and implementation of internal controls over refunds to prevent and detect exceptions in a timely manner. The Director will also ensure that risks such as noted in this finding are adequately identified and assessed in the documented risk assessment activities. Staff within the Financial Responsibility Division will be designated to monitor for compliance and for taking prompt action should exceptions occur.

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## **ADMINISTRATIVE LEAVE AND TERMINATIONS**

Our objectives were to determine if

- the department was complying with all applicable laws and regulations related to administrative leave and terminations;
- the department had adequate procedures related to administrative leave and terminations; and
- the department communicated employee misconduct to the Comptroller's office.

We reviewed the applicable laws and regulations. We interviewed management to gain an understanding of the procedures used to ensure compliance with these laws and regulations and to determine the adequacy of the procedures. We then obtained a listing of all employees who were placed on administrative leave and/or terminated between June 17, 2003, and February 14, 2005. From this listing, we selected for our review all employees who had over 100 hours of administrative leave with pay for reasons other than military leave and bereavement leave, and all employees who were terminated involuntarily. We reviewed all related correspondence to determine whether the department followed appropriate state regulations. We also reviewed the related correspondence on all employees who were terminated involuntarily and determined if the misconduct should have been reported to the Comptroller's office.

Based on this review, we determined that

- the department had complied with the applicable laws and regulations that pertained to administrative leave and involuntary terminations;
- the department had adequate procedures related to administrative leave and terminations; and
- the department had communicated employee misconduct to the Comptroller's office.

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## **COMPUTER APPLICATION ACCESS AND DISASTER RECOVERY**

To properly carry out its administrative and financial duties, the department uses the Tennessee On-Line Purchasing System (TOPS), Property of the State of Tennessee (POST), the State of Tennessee Accounting and Reporting System (STARS), and the department's driver's license system. In order to access these applications, the employees have active Resource Access Control Facility (RACF) IDs. The department also uses the driver's license system to maintain the state's individual driving records. Our testwork focused on determining the adequacy of the department's procedures for granting access, if the persons with access to these systems were active employees or authorized contractors, if the persons had job duties which required this access, and that the level of access did not create an inadequate segregation of duties within each area of responsibility. An additional objective for the driver's license system was to determine if the department had appropriate security forms on file. Our objectives also included determining if the department had a disaster recovery plan for those applications that were not run at the data center at the Office for Information Resources in the Department of Finance and Administration.

We interviewed management to determine the department's procedures for granting access. We obtained current listings of all users with access to these applications and determined if these persons were active employees or authorized contractors. We tested a sample of persons with access to the driver's license system to determine if the user was an active employee or authorized contractor, the person had job duties which required this access, that the level of access did not create an inadequate segregation of duties, and that the department had appropriate security forms on file. We also determined if all persons with access to POST,

STARS, and TOPS had job duties that required their level of access, and that the level of access did not create an inadequate segregation of duties.

As a result of our testwork, we found that the department's procedures for granting access were not adequate and that the department had granted access to individuals but could not provide the security forms for those individuals. This is discussed further in finding 5. We also determined that the department did not have a disaster recovery plan for those applications that were run independently from the data center maintained by the Office for Information Resources in the Department of Finance and Administration. See finding 6. For all applications, our results also indicated that the department's users were employees or authorized contractors, that persons with access had job duties which required this access, and that the level of access did not create an inadequate segregation of duties.

**5. The Department of Safety has not properly assessed the risks of unauthorized access and has not mitigated those risks by monitoring employees' access to the Driver License System and the Tag and Vehicle Inquiry System**

**Finding**

As noted in the previous audit, the department's Information Systems Division does not properly monitor access to the Driver License System and the Tag and Vehicle Inquiry System. Each Department of Safety employee must complete a RACF ID Request form to gain access to these systems. The security administrator will then assign the user to one or more user groups. User groups are a primary method that access is controlled. Each member of a user group can access a pre-defined set of screens.

Management concurred with the prior audit finding and stated:

. . . The Information Systems Director will develop policy and procedures requiring annual review of access to departmental information systems and networks. These procedures will incorporate a policy to ensure all employees are reviewed either annually or upon position termination/change. . . .

To address the policies and procedures issue, the department developed an "Agreement Authorizing Access to Data in Systems Managed by State of Tennessee Department of Safety" that allows other state agencies to grant their employees access to these systems. When the agreement is signed, the Department of Safety's Security Administrator will grant the outside agency access to add users to a specific user group. According to the terms of the agreement, it "must be submitted and approved prior to the first day of July each year for services to continue." Our inquiry revealed that after the Department of Safety received the signed agreements, staff did not monitor to ensure that appropriate security access forms were appropriately maintained by the outside agencies.

As a result, the following discrepancies were noted:

- For 8 of 20 persons with access (40%), the department could not provide a RACF ID Request form. Three of the eight persons were Department of Safety employees. The remaining five persons were employees with other agencies. The Department of Safety relies on the outside agency to keep forms for these employees. The forms could not be provided to the Department of Safety or the auditors for these five persons.
- For 6 of 11 persons with access (54.55%), the department could not provide the Agreement Authorizing Access to Data in Systems Managed by State of Tennessee Department of Safety signed by the outside agency. Five of the six persons worked for the same agency.
- Two of 12 persons with access (17%) did not have a properly completed RACF ID Request form. The form provided did not have any boxes marked indicating what screens the person needed access to. These persons were employed in county clerks' offices and had access to the Department of Safety's systems.

The department's failure to ensure all agreements are obtained and maintained before allowing access to critical systems prevents accountability by the department over system access by outside agencies. In addition, the failure to collect forms and/or ensure collection of forms by other agencies makes it more difficult to monitor and control access to the department's systems. For example, it is not possible to compare the type of access requested with the type of access given.

### **Recommendation**

Top management should take steps to reasonably ensure that department staff over the information technology operations are knowledgeable about the significant risks to the department's information technology operations and know how to design and implement effective controls. Top management should also document its risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt actions should exceptions occur.

The Director of Information Systems should ensure that all persons with access to the systems have a RACF ID Request form and that the form is properly completed. In addition, the director should seriously consider whether the department needs to continue the practice of allowing other agencies to grant system access. If it is decided that the practice should continue, the director should develop formal monitoring procedures to ensure that those outside agencies granting access to the Department of Safety's system are collecting the appropriate security access forms or the Department of Safety should obtain and maintain the required access forms. The Department of Safety should also ensure each outside agency with ability to grant access to

the system signs a new agreement each July. The Director should revoke the access to agencies that do not have a signed agreement immediately or obtain the signed agreement.

### **Management's Comment**

We concur. Concerning documentation of agreements between agencies and with personnel within the department, records will be maintained and reviewed in accordance with state policy. Management will ensure that information system staff are knowledgeable about the significant risks to the department's information technology operations and know how to design and implement internal controls. The Director of Information Systems will designate staff to be responsible for monitoring for compliance and for taking prompt actions if exceptions occur.

We have entered into agreements (Memorandum of Understanding) with other agencies to provide them with information necessary to carry out their lawful purposes, and we define such lawful purposes in the MOU. The department will ensure that each outside agency with ability to grant access to the system signs a new agreement each July. It is the responsibility of each agency to maintain access security as defined in the MOU, and the various security officers and IS Directors of the outside agencies should be familiar with their responsibilities under the MOU. Should any agency be found noncompliant with the MOU, the penalties defined in the MOU will be invoked. The department will develop procedures to ensure that outside agencies are collecting the appropriate security access forms. These procedures will include random sampling of individuals from such agencies to ensure that such access is on file.

Except for the MOU agreements which are due in July, this recommendation will be implemented by April 1, 2006.

**6. The Department of Safety has not adequately assessed and mitigated the risk of not having a disaster recovery plan for system applications which run independent from the state's data center**

### **Finding**

The Department of Safety does not have a disaster recovery plan for applications which run independently from the Office for Information Resources (OIR) data center. The disaster recovery plan provides for the continuity of operational functions in case its applications are destroyed. According to discussion with Information Systems Division staff, the department has applications that are not run from the OIR data center. Some of these applications include the Trooper Activity System, the Capitol Police System, and the Crash Analysis Tracking System. The potential for interrupted service and lost data increases significantly without an adequate recovery plan. In the event of an emergency or disaster, the department may not be equipped to carry out day-to-day operations for the areas of the department that these applications support.

## **Recommendation**

The Commissioner of the Department of Safety should ensure that a disaster recovery plan is developed immediately for the critical applications which are independent of the state's data center. The plan should document specific processes and procedures and might include, but not necessarily be limited to,

- guidelines for damage assessment,
- guidelines for declaring a disaster,
- guidelines for reporting a disaster to the alternate recovery site,
- a current list of recovery team members and telephone numbers,
- procedures for assembling the disaster recovery team,
- a definition of recovery team members' responsibilities,
- guidelines for press releases and media contacts,
- movement of backup files to the alternate recovery site,
- guidelines for recovering communication networks,
- detailed instructions for restoring disk files,
- detailed processing priorities, and
- restoration or relocation of the original processing site.

In addition, top management should take steps to reasonably ensure that staff over the information technology operations are knowledgeable about the significant risks to the department's information technology operations and the significance, importance, and need for appropriate disaster recovery controls. Top management should also document its risk assessments and assign staff to design and implement, effective controls. Management should monitor to ensure controls are operating effectively and are being regularly and formally tested. Management should seek clarification of any terms, comments, or observations as necessary before adopting the risk assessments and related controls.

## **Management's Comment**

We concur. Staff of the information technology section is knowledgeable about the risks to the department's information technology operations and the need to have appropriate disaster recovery controls. Risk assessments will be documented and staff will be assigned to design and implement effective controls.

Implementing disaster recovery plans will take at least one budget cycle, due to the cost and time to deliver the required items. We are pursuing agreements with the Tennessee Department of Transportation (TDOT) for mutual backup sites. These sites may require

additional network capacity to be ordered, as well as several redundant servers. Appropriate funding and resources are required.

In addition to the issue of Department of Safety hosted applications, we are concerned the existing OIR data center recovery capability is insufficient to maintain operations and provide services. In addition to the mainframe, we require network interfaces to our locations, interfaces between the mainframe and TIES/NCIC, the Jacada servers which front-end the Driver License Issuance system and the Trust image servers to maintain service. We have discussed these issues with OIR representatives and look forward to the plans they're developing for improved disaster recovery.

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## EQUIPMENT

The objectives of our equipment work were to determine whether

- the department had adequate controls in place to ensure that equipment was properly safeguarded and accounted for;
- the department performed an annual physical inventory of all capitalized equipment;
- the equipment was located by department staff;
- the information in the Property of the State of Tennessee (POST) was accurate;
- equipment purchased with federal funds was used in the program that funded the purchase;
- the total of POST acquisitions during the fiscal year ended June 30, 2004, reconciled to the total expenditures charged to equipment in the State of Tennessee Accounting and Reporting System (STARS) for the same period;
- the department maintained proper accountability over the vehicles that were assigned to it by the Department of General Services;
- the department maintained proper accountability over confiscated property;
- lost or stolen equipment was promptly reported to the Comptroller's office and removed from POST timely; and
- the department maintained proper accountability over leased equipment.

We interviewed management to gain an understanding of the procedures that it followed to ensure that all equipment assigned to it was properly accounted for and safeguarded. We asked management about the controls in place to ensure that equipment purchased for the county clerks across the state to use in the title and registration program was properly safeguarded. We obtained from the Department of General Services a listing of all equipment assigned to the Department of Safety as of April 5, 2005, which cost at least \$5,000. We reviewed the list to determine if all equipment with an acquisition date prior to January 2004 had an inventory date after December 31, 2002. We selected a sample from this list and tested it to determine if the

equipment could be found, the information in POST was correct, and equipment purchased with federal funds was being used in the program that funded the purchase. We compared the total cost of all equipment on this list with an acquisition date between July 1, 2003, and June 30, 2004, with the total expenditures charged to equipment in STARS for the same period to determine if the two totals reconciled. We obtained from the Department of General Services a listing of all vehicles assigned to the department as of April 5, 2005. We selected a sample of vehicles and determined if the information about the vehicles was accurate and the mileage log was up to date. To accomplish this, if the vehicle was located in Davidson County, we physically observed the vehicle. If the vehicle was not in Davidson County, we sent confirmations to those employees who were assigned vehicles requesting that they confirm to us the license plate number, year, make, model, county the vehicle is used in, and the current odometer reading. We inquired of management regarding their procedures to safeguard confiscated property. We reviewed a sample of the reports of lost or stolen equipment that were sent to our office and determined if the reports were sent timely, and the related adjustments to POST were made timely. We discussed with management issues regarding all leased equipment and their procedures for maintaining accountability over such items.

As a result of our discussions and testwork, we concluded that

- the department did not have adequate controls in place to ensure that equipment was properly safeguarded and accounted for (see finding 7);
- the department had not documented an annual physical inventory of all capitalized equipment (see the finding for further details);
- the information in POST for the equipment assigned to the department was not always accurate, as discussed further in finding 7;
- equipment purchased with federal funds was used in the program that funded the purchase;
- the total equipment acquisitions recorded in POST during the fiscal year ended June 30, 2004, did not reconcile in all material respects to the total equipment expenditures charged to the equipment object code in STARS for the same period, and the listings had some immaterial variances;
- the department maintained proper accountability over the vehicles that were assigned to it by the Department of General Services;
- the department maintained proper accountability over confiscated property;
- lost and stolen property was not promptly reported to the Comptroller's office and was not removed from POST timely (see finding 7); and
- the department maintained proper accountability over leased equipment.

**7. The risks associated with inadequate controls and lack of accountability over equipment have not been adequately addressed**

**Finding**

As noted in the prior two audits, the department did not maintain proper accountability over equipment. The Property of the State of Tennessee (POST) manual contains guidelines for safeguarding and accounting for equipment. However, the department did not adhere to these guidelines.

**Failure to take annual physical inventory of equipment**

Testwork during the current audit revealed that for 759 items reviewed, there was no evidence in the POST system that the items had been inventoried since December 31, 2003. The POST manual, Appendix C (Physical Inventory Procedures), requires each agency to take an annual physical inventory prior to the close of the fiscal year.

**Lost or stolen equipment not reported timely**

The department reported to the Comptroller's office 140 items totaling \$126,083.06 as lost or stolen from June 1, 2003, to April 5, 2005. Testwork was performed on a sample of 25 items of equipment that were reported as lost or stolen. For the 25 items sampled, it took from 78 days to 1,422 days with an average of 201 days to report these items to the Comptroller of the Treasury. *Tennessee Code Annotated*, Title 8, Chapter 19, Part 501, 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.

**Lost or stolen equipment not timely removed from POST**

In the sample of 25 lost or stolen items, 11 (44%) were not removed from POST within 30 days following the date the notification letter was sent to the Comptroller. All 11 items were removed within 64 or 65 days following the date of the notification letter. Based on discussion with staff from the Department of General Services, this situation was apparently caused by the Department of Safety not completing a yearly inventory timely. When the Department of Safety finally reported the changes resulting from its inventory, the Department of General Services was in the process of year-end closing and could not process the changes in POST.

### Equipment not properly tagged or recorded in POST

A sample of 30 items of equipment was obtained from a listing from the Department of General Services of equipment costing over \$5,000 assigned to the Department of Safety as of April 5, 2005. The following problems were noted:

- For 4 of 30 items tested (13%), the existence of the item could not be verified because the item did not have a state tag. In addition, three of the four items did not have serial numbers recorded in POST and one of the four items could not be found. In three out of the four cases, although management was able to provide an item that matched the description of the item recorded in POST, we could not be certain these were the same items.
- Of the 26 items verified for existence, 2 of 26 (8%) did not have a state tag attached, but the serial number of the item agreed with POST records.
- Of the 26 items verified for existence, 10 of 26 items tested (38%) had incorrect information noted on POST as to the location, state tag, serial number, and/or description.

The auditors identified the risk of inadequate controls over equipment in the audit for years ended June 30, 2000, and June 30, 1999.

Management concurred with that finding and stated:

. . . It is the intention of management to follow established policies and procedures in order to maintain an accurate accountability over equipment. Any discrepancies discovered during the inventory process will be reconciled with POST. Proper documentation will be maintained for any equipment which is transferred, surplus, lost, or stolen. A change has already been made in the way this department tags new computer equipment. All computer equipment which must first go to Information Systems for loading of programs, etc., will be assigned to Information Systems and not the actual division for which the equipment was ordered. Information Systems will submit change orders to the department property office when equipment is relocated.

We will emphasize to all personnel that equipment must be adequately safeguarded in a proper environment. New equipment will be properly valued at the time it is entered into POST.

However in the audit for the period June 1, 2000, through June 17, 2003, we again reported that in spite of management's efforts, problems still exist. Management concurred with that finding and stated in its response,

We will reevaluate our policies on equipment accountability in order to ensure that equipment is properly recorded in POST, that equipment is adequately safeguarded, and that employees are held accountable for lost or stolen equipment.

However, according to management no changes were made to the procedures. When we discussed this issue with management, they stated that they believed these problems were actually caused by a change in personnel, the volume of equipment, and the fact that equipment is located throughout the state.

When the information in POST is not correct, there is an increased risk that equipment could be stolen and the loss not be detected. Furthermore, without accurate information in POST, there is a greater likelihood that the cost of equipment on the state's financial statements will be misstated. The lack of accountability over equipment items contributed to the losses of equipment mentioned above.

### **Recommendation**

The Commissioner should ensure that annual inventories are performed timely and the inventory process includes all items. The Commissioner should ensure that timely updates are made to POST to reflect status changes of items. The Director of Internal Audit should ensure that items are reported to the Comptroller of the Treasury timely. The Commissioner should establish and enforce policies that ensure that equipment is adequately safeguarded and employees are held accountable for lost or stolen equipment. The Commissioner should determine why staff did not take the actions stated in prior years' management's comments and take appropriate action.

The Commissioner should ensure that all guidelines and procedures outlined in the POST manual for safeguarding and accounting for equipment are followed. Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls over equipment to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

### **Management's Comment**

We concur. The inventory process will be started two (2) months earlier this year to allow time for General Services to get the updates to POST in a timely manner. A complete list of all of the inventory items will be sent to each section asking them to locate each item and verify the accuracy of the inventory records. Internal Audit will continue to report lost or stolen items immediately upon notification of such loss. Internal Audit will notify each section if they are not reporting lost and stolen items in a timely matter, and if necessary, report any unresolved

discrepancies to the Commissioner. We will review and update, if necessary, our General Order on equipment with the goal to ensure that equipment is adequately safeguarded and that employees are held accountable for lost or stolen equipment.

We will further ensure that all guidelines and procedures outlined in the POST manual for safeguarding and accounting for equipment are followed. The Director of the Support Services Section is responsible for the design and implementation of internal controls over equipment. It continues to be the responsibility of each section head to monitor ongoing compliance with all requirements and for taking prompt action if exceptions occur.

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## EXPENDITURES

The objectives of the expenditure testwork were to determine whether

- controls over expenditures were adequate;
- expenditures, including travel, were in compliance with applicable laws and regulations and charged to the proper object code;
- sole-source purchases qualified for sole-source status;
- expenditures charged to travel were in compliance with state travel regulations;
- internal controls and procedures over payment cards were adequate;
- payment card purchases were adequately supported, approved, and reconciled to transaction logs;
- payment card purchases appeared reasonable and necessary; and
- payment card purchases complied with the Department of General Services Purchasing Policies and Procedures concerning recurring purchases; the *State of Tennessee Payment Card Holder Manual*; purchases from statewide contract; and purchases requiring bids, including purchases that were split to avoid bid requirements.

We interviewed management to gain an understanding of whether controls over expenditures were adequate and to determine if controls were in compliance with applicable state rules and regulations. We obtained a listing of all expenditure transactions greater than \$10,000 that were not charged to salaries and benefits for the period between June 17, 2003, and November 30, 2004; a listing of travel expenditure transactions which exceeded \$500; and a listing of all expenditures charged to awards and indemnities or unclassified which exceeded \$200. We tested a sample from each of these populations to determine if the expenditures were charged to the proper object code and were in compliance with applicable laws and regulations. We obtained from the Department of General Services a listing of all sole-source purchases made between June 17, 2003, and March 31, 2005. We tested the all sole-source purchases to determine if the purchases qualified for sole-source status.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over payment cards. We tested a sample of payment card transactions for adequate documentation, proper approvals, reconciliation to the card holder transaction logs, and if purchases appeared reasonable and necessary. We also tested for purchases which exceeded the single purchase dollar limit, and to determine if purchases appeared reasonable and necessary. In addition, to identify possible split purchases or unauthorized purchases, we searched for and examined items purchased on a weekend or holiday, multiple purchases from an individual vendor which exceeded \$400 on a single day, and purchases of items which were prohibited by the *State of Tennessee Payment Card Holder Manual*.

Based on our discussions and testwork we concluded that

- controls over expenditures were adequate;
- expenditures charged were in compliance with applicable regulations and were charged to the proper object code;
- sole-source purchases qualified for sole-source status;
- expenditures charged to travel were in compliance with state travel regulations;
- internal controls and procedures over payment cards were adequate;
- payment card purchases were adequately supported, approved, and reconciled to transaction logs;
- payment card purchases appeared reasonable and necessary; and
- payment card purchases complied with the Department of General Services Purchasing Policies and Procedures concerning recurring purchases; the *State of Tennessee Payment Card Holder Manual*; purchases from statewide contract; and purchases requiring bids, including purchases that were split to avoid bid requirements in all material respects.

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## **CONFIDENTIAL FUND**

The department has a confidential fund bank account which is used in auto theft undercover investigations by the Criminal Investigation Division.

The objectives of the confidential fund testwork were to determine whether

- approval for the fund was obtained from the Department of Finance and Administration and the amount in the account did not exceed the amount authorized;
- controls over the use of confidential funds were adequate;
- the amounts on the monthly bank reconciliations agreed to supporting documentation and bank balances reconciled to the monthly accountability reports;

- bank reconciliations were approved by someone other than the preparer;
- checks that were outstanding for more than one month were investigated; and
- the balance of the account as of December 31, 2004, per departmental records was confirmed by the bank.

We contacted the Department of Finance and Administration and verified that the bank account was properly approved and that the authorized amount agreed with the amount in the bank account.

We interviewed management to gain an understanding of the controls over the confidential fund and to determine if controls were adequate. We obtained the monthly bank reconciliations for the period between June 2003 and January 2005 and reconciled or traced all amounts on the reconciliations to the monthly accountability reports. We reviewed each monthly bank reconciliation to determine if the reconciliation was approved by someone other than the preparer. We examined all checks to determine if any did not clear within one month and the circumstances surrounding those that did not. We also confirmed with the bank that the balance as of December 31, 2004, per departmental records was accurate.

As a result of our discussions and testwork, we concluded that

- approval for the fund was obtained from the Department of Finance and Administration and the amount in the account did not exceed the amount authorized;
- controls over the use confidential bank account funds were adequate;
- the amounts on the monthly bank reconciliations agreed to supporting documentation and bank balances reconciled to the monthly accountability reports;
- bank reconciliations were approved by someone other than the preparer;
- checks that were outstanding for more than one month were investigated; and
- the balance of the account as of December 31, 2004, per departmental records could be confirmed by the bank

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## **SECONDARY EMPLOYMENT**

The objectives of our review of secondary employment were to determine if

- controls and procedures over secondary employment were adequate,
- management had approved forms on file for secondary employment and forms were completed in accordance with General Order 250,
- there was no evidence that employees on extended sick leave were actually working a second job, and

- employees on extended sick leave were not permitted to work from home unless proper approval had been given in advance.

We interviewed management to gain an understanding of the controls and procedures used to ensure that employees do not work on a second job while they are on sick leave and that they are not paid to work from home unless they have had prior approval to determine the adequacy of controls and procedures. We tested a sample of commissioned employees who were approved for secondary employment during fiscal years 2003, 2004, and 2005, to determine if management had approved forms on file and that forms were completed in accordance with General Order 250. We obtained a listing of all sick leave taken for the employees tested in the sample to determine if it appeared that the employees were on extended sick leave since the approval for secondary employment had been granted. If this occurred, we interviewed the individuals' supervisor and the employee to determine the reason for the sick leave. We obtained a listing of all departmental employees who received supplemental pay between June 17, 2004, and December 31, 2004, and determined if the pay was for work from home.

Based on our discussions and testwork, we concluded that

- controls and procedures over secondary employment were adequate,
- management had approved forms on file and completed forms were in accordance with General Order 250,
- there was no evidence that employees on extended sick leave were actually working a second job, and
- no employees on extended sick leave were permitted to work from home.

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## **DRIVER TRAINING SCHOOLS**

The department currently administers five different types of driver training schools: Commercial Driver Training Schools (CDT), Court Ordered Schools, Defensive Driving Courses, Cooperative Driving Testing Program (CDTP), and Third Party Commercial Driver License Companies (Third Party CDL).

The purpose of the commercial driving training schools is to prepare persons to take the state's driving and written test for a Class D license. Section 55-19-101 through 19-111, *Tennessee Code Annotated*, grants the Commissioner of the Department of Safety the authority to issue licenses to commercial driver training schools and instructors. The commercial driver training schools and the court-ordered schools are administered through the Safety Education Division. The court-ordered schools are used by the courts as an alternative to posting the violation to the driver's record. Section 55-10-301, *Tennessee Code Annotated*, authorizes the department to approve the instructors for the court-ordered schools.

Section 55-50-505, *Tennessee Code Annotated*, authorizes the department to oversee Defensive Driving Courses. This is carried out by the Driver Improvement Division. The

purpose of a Defensive Driving Course is to provide remedial training to motorists who frequently disobey traffic laws.

The purpose of the Cooperative Driver Training Program is to give drivers the knowledge and skills needed to pass the written and skills tests for a Class D license or Class PD learner's permit. The schools actually administer both the written and the skills tests. A person who passes a test given by one of these schools does not have to take the tests given at the department's driver's license examining stations. Section 55-50-322, *Tennessee Code Annotated*, authorizes the department to regulate the Cooperative Driver Training Program.

The Third Party Commercial Driver License Companies provide commercial driver's license (CDL) skills tests, but the companies do not administer the knowledge test. This means that a person who passes a skills test given by one of these companies must take the knowledge test at one of the department's examining stations. Section 55-50-322, *Tennessee Code Annotated*, authorizes the department to regulate Third Party Commercial Driver License Companies.

Our primary objective of the testwork was to determine if the department had procedures in place to adequately monitor the schools.

We reviewed the applicable laws and regulations. We interviewed management to obtain an understanding of the controls and procedures used by management to ensure that the department is meeting its responsibilities in the oversight of these schools. For a sample of CDT, CDTP, and Third Party CDL schools, we determined if the department had documentation of its monitoring procedures undertaken for that school. Management stated that it was not inspecting the defensive driving courses and was only approving the instructors for the court-ordered schools.

As a result of our discussions and testwork, we concluded that the department does have procedures in place to adequately monitor the schools.

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## **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964 AND TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

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 Safety filed its compliance reports and implementation plans on October 22, 2003, and June 29, 2004.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The

Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

Section 4-4-123, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

Our objectives were to determine whether the department filed its compliance reports and implementation plans under Title VI and Title IX. We reviewed the reports and plans that were available.

We determined that the department did not file the Title IX compliance reports or implementation plans for the years ended June 30, 2003, and June 30, 2004. This is discussed further in finding 8. Although the department did not file the required Title VI compliance reports and implementation timely, it was filed.

**8. Top management's lack of attention to Title IX compliance requirements raises concerns that inadequate consideration is given to preventing discrimination on the basis of gender**

**Finding**

As noted in the prior audit, the Department of Safety did not submit Title IX compliance reports and implementation plans to the Department of Audit as required. The plans relevant to the current audit were due June 30, 2004, and June 30, 2005, in compliance with Section 4-4-123, *Tennessee Code Annotated*. The department received federal funds through the state Department of Education to conduct training of Drug Abuse Resistance Education (DARE) officers and to monitor the DARE programs across the state. Since the funds financed education classes that were open to the public, the department was subject to the requirements of Title IX of the Education Amendments Act of 1972.

Management concurred with the prior audit finding and stated:

. . . The department will contact the State's Title IX coordinator to determine the procedures required to comply with requirements of Title IX, including the required implementation plan, plan updates, and annual compliance review reports.

Management in their six-month follow-up comments to the Division of State Audit stated a coordinator was appointed to file the Title IX plan. The department did file the compliance

reports and implementation plans due on June 30, 2003, on February 5, 2004. However, when we asked the coordinator why reports were not filed for 2004 and 2005, he stated he was not aware that reports had to be submitted each year.

Section 4-4-123, *Tennessee Code Annotated*, states, “Each such entity of state government shall submit annual Title IX compliance reports and implementation plan updates to the department of audit by June 30, 1999, and each June 30 thereafter.”

The absence of a Title IX implementation plan, annual compliance reviews, and plan updates could indicate that inadequate attention is given to preventing discrimination on the basis of gender.

### **Recommendation**

Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls over compliance requirements to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

The Commissioner of the Department of Safety should ensure the Title IX plan coordinator is aware of all pertinent requirements of the plan and that the department submits appropriate Title IX compliance reports and implementation plans each year.

### **Management’s Comment**

We concur. Our Title IX Coordinator has been instructed to take the necessary steps to ensure that the department is compliant with all the pertinent requirements of the plan and that all provisions of T.C.A. 4-4-123 are fully complied with, including the timely submission of compliance reports and implementation plan updates to the department of audit by June 30 of each year.

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## **FINANCIAL INTEGRITY ACT**

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency’s internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the 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;
- 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*;
- the department acknowledged its responsibility for maintaining an adequate internal control environment in the letter; and
- corrective actions are being implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 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. To determine if the department acknowledged its responsibility for maintaining an adequate internal control environment in the letter, we reviewed the letter and compared the letter with the letter suggested by the Department of Finance and Administration. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. We determined that the department did not acknowledge its responsibility for maintaining an adequate internal control environment in the letter. This has been reported in a separate letter. Corrective actions are being taken on the weaknesses noted.

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## OBSERVATIONS AND COMMENTS

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### MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the department. 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 department 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 department.

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 department. 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.

## **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 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.

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## APPENDIX

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### ALLOTMENT CODES

Department of Safety divisions and allotment codes:

349.01	Administration
349.02	Driver's License Issuance
349.03	Highway Patrol
349.04	Motorcycle Rider Education
349.06	Auto Theft Investigations
349.07	Motor Vehicle Operations
349.08	Driver Education
349.09	Tennessee Law Enforcement Training Academy
349.10	POST Commission
349.11	Title and Registration
349.12	Major Maintenance
349.13	Technical Services
349.14	CID Anti-theft Unit