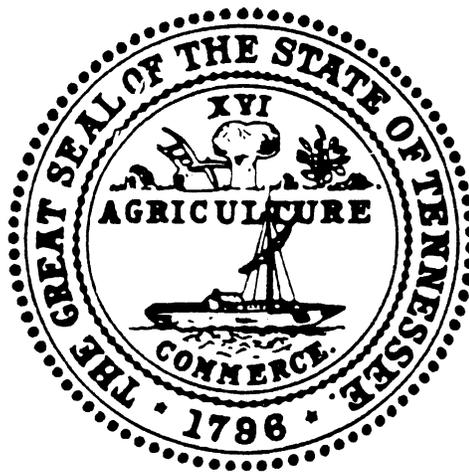


# AUDIT REPORT

Department of Environment and Conservation

July 2008



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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

**Kandi B. Thomas, CPA, CFE**  
Assistant Director

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

**Teresa L. Hensley, CPA**  
Audit Manager

**Andrew Hawkins, CFE**  
In-Charge Auditor

**Dennis Blackmon**  
**Sheilah Pride, CFE**  
**Thad Sanders, CPA**  
**Sonja Yarbrough, CFE**  
Staff Auditors

**Amy Brack**  
Editor

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

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

July 29, 2008

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

The Honorable James H. Fyke, Commissioner  
Department of Environment and Conservation  
401 Church Street  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Environment and Conservation for the period May 1, 2004, through June 30, 2007.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ajm  
06/048



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

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

June 30, 2007

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 Environment and Conservation for the period May 1, 2004, through June 30, 2007.

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 Environment and Conservation's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Environment and Conservation is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's 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 Environment and Conservation's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/ajm

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Environment and Conservation**  
July 2008

## AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period May 1, 2004, through June 30, 2007. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of access to statewide computer applications, information systems, state parks, equipment, the Division of Underground Storage Tanks, Tennessee Elk River Resources Management, environmental section receipts, expenditures, Department of Finance and Administration Policy 16 – *Employee Housing and Meals*, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

### **Management of the Department Has Not Mitigated the Risks of the Theft of Funds Resulting From Inadequate Internal Controls Over the State Parks Hospitality Management System and Point of Sale System\***

There is no security violation report produced to indicate to management inappropriate use of the Hospitality Management System, there are inadequate controls over gaining access to the systems, and there were instances of employees not complying with established procedures (page 6).

### **Top Management Has Not Mitigated the Risks Associated With Park Management and Staff Failures to Follow Established Policies and Procedures Governing Cash Receipts, and as a Result, the Risks of Fraud, Waste, Abuse, and Misappropriation of State Funds Are Increased\*\***

The department does not have adequate controls over cash-receipting procedures at the Central Office State Park Gift Shop and at the following state parks visited: Henry Horton State Park, Nathan Bedford Forrest State Park, Reelfoot Lake State Park, and Sycamore Shoals State Park (page 15).

**Management and Staff Have Not Followed the Free and Reduced Meal Policy at Henry Horton State Park, and Free or Reduced Meals Were Provided to Ineligible Individuals\*\***

Henry Horton State Park was not following the departmental policy for free and reduced meals for employees. Free or reduced meals were given to individuals who were not employees of the park. Park management has not reconciled the Employee Meal Register with the signed guest checks (page 20).

**Management Has Not Assessed and Mitigated Risks Associated With Inadequate Controls Over Inventories at State Parks, Which Increases the Risk of Misappropriation of Assets\*\***

The department does not have adequate controls over inventory at the Central Office State Park Gift Shop and Henry Horton and Reelfoot Lake state parks. Park management has not adequately segregated the purchasing, custodial, and recordkeeping duties. Management has not reviewed or observed obsolete inventory before it is disposed of by employees (page 22).

**Management Has Not Established Adequate Controls Over Gasoline and Diesel Inventories, Which Increases the Susceptibility of Fuel Inventories to Fraud, Waste, or Abuse**

The department does not have adequate controls over fuel inventories at Henry Horton and Nathan Bedford Forrest state parks. Staff did not regularly take fuel inventory measurements. Staff did not reconcile the differences of fuel on-hand to the inventory records. Management and staff did not monitor, investigate, or properly report fuel discrepancies (page 25).

**The Department Has Still Not Recorded Land It Acquired in 1996 From the Tennessee Elk River Development Agency\*\***

Land transferred to the department when the Tennessee Elk River Development Agency was dissolved in 1996 has still not been recorded in the state's inventory system. When the department's management does not properly account for and provide adequate documentation to the Department of Finance and Administration for proper recording, the state's assets as reported in the *Tennessee Comprehensive Annual Financial Report* are understated (page 30).

**The Department Did Not Follow Established Procedures for Purchases Made Using Payment Cards, Which Increases the Risk of Fraud, Waste, and Abuse Associated With Potentially Improper Purchases**

The department allowed payment card purchases to be split in order to circumvent state purchasing limits. In addition, the department did not adequately document the justification for cardholder cycle dollar-limit increases. Not all cardholders had a signed State Payment Card Application and Maintenance Form on file (page 35).

**The Department Paid for Communication Lines Which Were Not Being Used**

The division directors did not ensure that their staff routinely monitored the use of the department's telephone lines, and as a result, the department wasted state funds for

unused lines. Lines were found that had not been used for at least two years. Some lines were out of service, and other lines could not be identified by department personnel (page 37).

\* This finding is repeated from the prior audit.

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

**Financial and Compliance Audit  
Department of Environment and Conservation**

---

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	2
<b>PRIOR AUDIT FINDINGS</b>	2
Resolved Audit Findings	4
Repeated Audit Findings	4
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	4
Access to Statewide Computer Applications	4
Information Systems at the Resort State Parks	5
Finding 1 – Management of the department has not mitigated the risks of the theft of funds resulting from inadequate internal controls over the state parks’ Hospitality Management System and Point of Sale system	6
State Parks	12
Finding 2 – Top management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts, and as a result, the risks of fraud, waste, abuse, and misappropriation of state funds are increased	15
Finding 3 – Management and staff have not followed the free and reduced meal policy at Henry Horton State Park, and free or reduced meals were provided to ineligible individuals	20

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Page</u>
Finding 4 – Management has not assessed and mitigated risks associated with inadequate controls over inventories at state parks, which increases the risk of misappropriation of assets	22
Finding 5 – Management has not established adequate controls over gasoline and diesel inventories, which increases the susceptibility of fuel inventories to fraud, waste, or abuse	25
Equipment	27
Division of Underground Storage Tanks	27
Tennessee Elk River Resources Management	29
Finding 6 – The department has still not recorded land it acquired in 1996 from the Tennessee Elk River Development Agency	30
Environmental Section Receipts	31
Expenditures	33
Finding 7 – The department did not follow established procedures for purchases made using payment cards, which increases the risk of fraud, waste, and abuse associated with potentially improper purchases	35
Finding 8 – The department paid for communication lines which were not being used	37
Department of Finance and Administration Policy 16 – <i>Employee Housing and Meals</i>	38
Financial Integrity Act	39
<b>OBSERVATIONS AND COMMENTS</b>	40
Management’s Responsibility for Risk Assessment	40
Fraud Considerations	41
Audit Committees	41
Title VI of the Civil Rights Act of 1964	42
<b>APPENDICES</b>	43
Management’s Comments From Prior Audits	43
Allotment Codes	45

# **Financial and Compliance Audit Department of Environment and Conservation**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of Environment and Conservation. 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 Tennessee Department of Environment and Conservation is responsible for protecting and enhancing the quality of the state’s air, land, and water. It oversees state environmental regulation and management of historic, archaeological, and natural resources and manages Tennessee’s 53 state parks. In addition to the programs that report directly to the Commissioner, the department is formally divided into three bureaus: Environment, State Parks and Conservation, and Finance and Business Services.

The Commissioner’s Office oversees all departmental operations. Deputy and assistant commissioners for Environment, State Parks, and Finance and Business Services work closely with and report directly to the Commissioner. Also reporting directly to the Commissioner are Office of General Counsel, Recreation Education Services, Tennessee Historical Commission, Communications/Public Affairs, Legislative Liaison, Homeland Security/Emergency Services, and Internal Audit.

The Bureau of Environment is responsible for safeguarding human health and the environment for all Tennesseans by protecting and improving the quality of our state’s land, air, and water resources and ensuring compliance with state and federal regulations.

The Bureau of State Parks and Conservation manages the system of resort, rustic, and recreational parks and natural, historical, and archaeological areas; provides a systematic approach to constructing, inventorying, and maintaining all facilities managed by the department;

and works to identify and preserve significant historical and archaeological sites, as well as natural resources.

Finance and Business Services provides support and technical assistance for the daily operation of the department, including Fiscal Services, Information Services, Human Resources, Facilities and Space Management, and Internal Audit (administrative).

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

---

## AUDIT SCOPE

---

We have audited the Department of Environment and Conservation for the period May 1, 2004, through June 30, 2007. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of access to statewide computer applications, information systems, state parks, equipment, the Division of Underground Storage Tanks, Tennessee Elk River Resources Management, environmental section receipts, expenditures, Department of Finance and Administration Policy 16 – *Employee Housing and Meals*, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

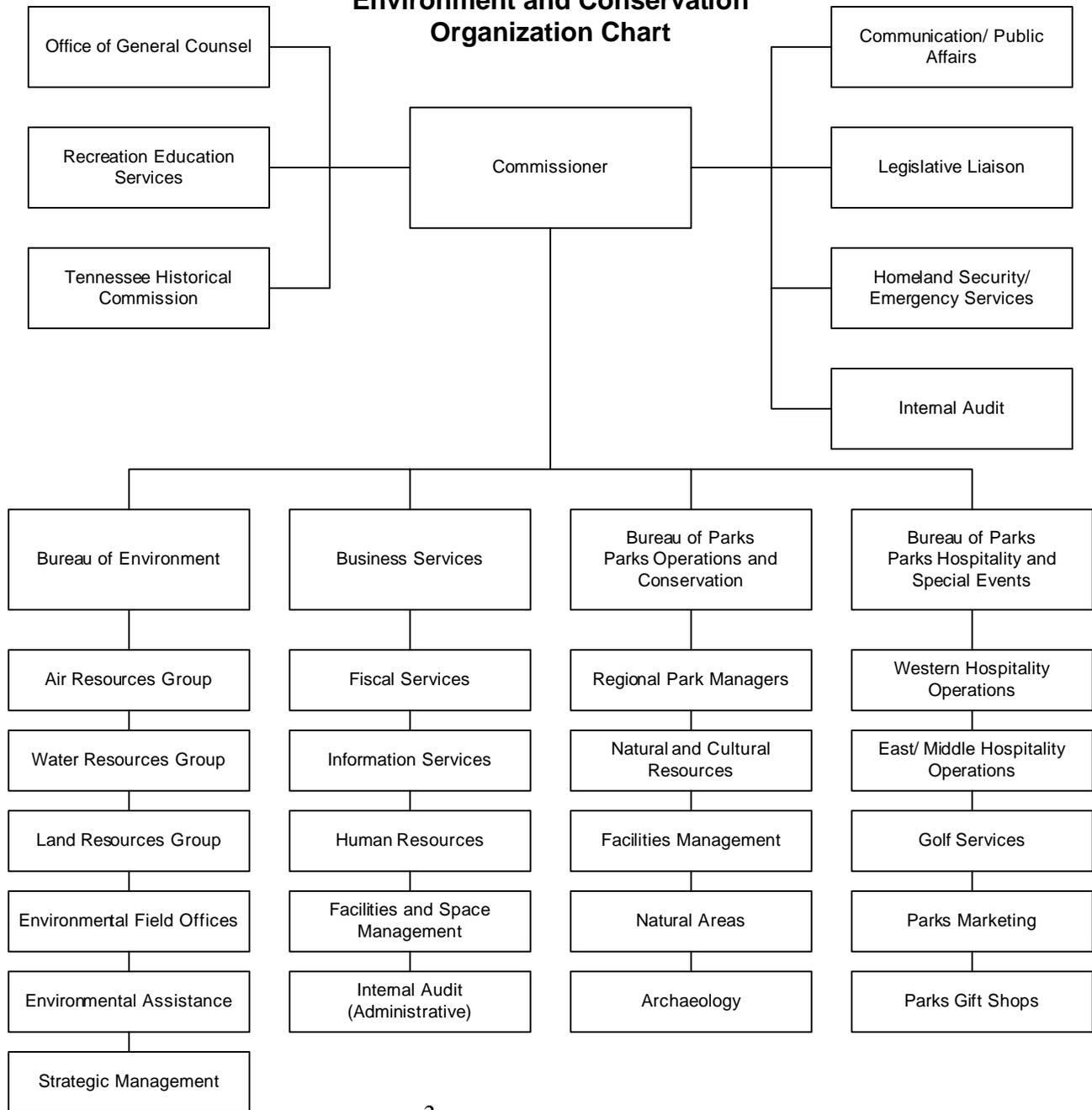
---

## PRIOR AUDIT FINDINGS

---

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Environment and Conservation filed its report with the Department of Audit on November 23, 2005. A follow-up of all prior audit findings was conducted as part of the current audit.

## Environment and Conservation Organization Chart



## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Department of Environment and Conservation has substantially corrected previous audit findings concerning access to the state's computer applications not being adequately limited; state parks not enforcing requirements in the agreements for leased operations; state parks not following purchasing policies and procedures; controls over community assistance grant expenditures needing improvement; lack of oversight on propane purchases; controls over equipment needing improvement; the insolvency of the Tennessee Underground Storage Tank Fund; weak controls over Underground Storage Tank Fund expenditures; the failure to approve contracts before the beginning of the contract period; financial responsibility rules not being enforced; and collection procedures for environmental divisions needing improvement.

## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning lack of controls over the Hospitality Management System and Point of Sale system, weak controls over cash receipts at the state parks, free meal policies not being followed at the state parks, controls over inventories at the state parks needing improvement, and land not being recorded in the state's inventory system.

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

---

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

---

### **ACCESS TO STATEWIDE COMPUTER APPLICATIONS**

The department uses the Tennessee On-line Purchasing System (TOPS) to handle purchases of goods and services, the State Employee Information System (SEIS) to record payroll and personnel activity, and the Property of the State of Tennessee (POST) system to maintain accountability over its equipment. Our objective in reviewing this area was to determine whether access to TOPS, SEIS, and POST was appropriate.

To accomplish this objective, we interviewed key employees to gain an understanding of internal controls. We obtained from the Department of General Services a listing of all persons who had access to Department of Environment and Conservation allotment codes in TOPS as of January 6, 2006, and in POST as of December 31, 2005. We obtained from the Department of Finance and Administration a listing of all persons who had access to Department of Environment and Conservation allotment codes in SEIS as of February 1, 2006. We tested all persons on the SEIS listing to determine if the level of access was limited to those whose job

duties required it and if they were active employees as of the date of the listing. We tested a nonstatistical sample from the TOPS and POST listings to determine if the level of access was limited to those employees whose job duties required it and to determine if they were active employees as of the date of the listings. We tested all persons on the TOPS and SEIS listings to determine if their access created an inadequate segregation of duties. We tested a nonstatistical sample from the POST listing to determine if the level of access created an inadequate segregation of duties. As a result of these interviews and testwork, we concluded that the level of access in TOPS, SEIS, and POST was appropriate.

---

## **INFORMATION SYSTEMS AT THE RESORT STATE PARKS**

The department uses the Hospitality Management System and the Point of Sale system at the resort state parks to account for all cash receipting transactions at the inns, restaurants, gift shops, golf courses, and marinas. Based on the deficiencies of this system noted in the prior audit, we decided to perform procedures on the Hospitality Management System (HMS) and Point of Sale (POS) information systems to determine whether

- policies and procedures manuals were followed by staff;
- high-priority program changes were made timely;
- program changes were properly documented and approved;
- access to the system and the utilization of security violation reports were adequate;
- an appropriate password policy was being used;
- reconciliation procedures of the online reservations data reported by the state's internet portal vendor to the data reported to the central office were adequate; and
- error correction procedures were adequate.

We obtained an understanding of the control environment through discussions with personnel and through the completion of memos and questionnaires. We reviewed applicable policies and procedures and other system documentation. Also, we obtained and reviewed the program change request log. We obtained a list of users with access to the HMS and POS systems as of January 19, 2006, and selected a nonstatistical sample of these users. To determine if the level of access was proper, we compared the level of access of the users to their job duties. To determine if the department properly canceled access to the systems when employees terminated or transferred employment, we compared the users to a current listing of employees. We asked departmental staff about procedures for security violation reports. We obtained and reviewed documentation of reconciliations performed at the central office of the online reservations data reported by the state's internet portal vendor with the data recorded at the central office by HMS, and we obtained and reviewed error correction procedures.

Based on our interviews, reviews, and testwork, we concluded that

- high-priority program changes were made timely;
- program changes were properly documented and approved;
- an appropriate password policy was being used;
- reconciliation procedures were adequate; and
- error correction procedures were adequate.

However, we also found that

- policies and procedures manuals were not always followed by staff; and
- controls over access to the system and the utilization of security violation reports were inadequate.

Problems noted above are discussed in finding 1.

**1. Management of the department has not mitigated the risks of the theft of funds resulting from inadequate internal controls over the state parks' Hospitality Management System and Point of Sale system**

**Finding**

The department continues to have risks of the theft of funds because of the lack of internal controls over the state parks' Hospitality Management System (HMS) and Point of Sale (POS) system. The HMS accounts for revenue of the inns and cabins, and the POS system, which is a component of HMS, accounts for revenue of retail operations, such as golf courses, gift shops, and restaurants. The systems are used at six resort parks: Fall Creek Falls, Henry Horton, Montgomery Bell, Natchez Trace, Paris Landing, and Pickwick Landing.

**Policies and Procedures**

The prior audit report noted that written policies and procedures regarding the HMS and POS system had not been developed by the department. Management concurred with the prior finding and stated that a committee had been formed and was in the process of completing a policies and procedures manual. The current audit revealed that the department had developed an HMS/POS procedures manual and updated the department's fiscal policies in July 2006 to incorporate HMS. We visited Henry Horton State Park (HHSP) and noted several HMS procedure discrepancies (some of which are discussed further in finding 2 concerning cash receipts). We found that staff were not following the void procedures. Specifically, a correction form was not always completed for each voided transaction. In addition, the staff at the inn, restaurant, and golf shop were not consistently applying the HMS system/power failure

procedures that require all locations to have a manual credit card machine in case of HMS or POS system or power failure.

Prior to July 2006, the HMS/POS procedures did not address correcting closed transactions or “no-sale” transactions. Testwork revealed that personnel were correcting closed transactions by creating a second ticket with a negative amount and then preparing a corrected, third ticket. Of 29 days of receipts reviewed, we noted seven instances of negative transactions, and only one of seven had an approved correction slip attached. All of these instances were at the Henry Horton Golf Course Pro Shop. Furthermore, the HMS procedures did not state how and when management was to review “no-sale” transactions. At HHSP, staff were unaware they could run a “no-sale” report. The July 2006 revision to the Administrative Policies and Procedures Manual includes procedures for correcting errors and monitoring “no-sale” transactions.

### **Security Reports**

The prior finding noted that HMS does not produce a security violation report. The security violation report shows users who have attempted and/or obtained access to unauthorized areas of the system. Management concurred with the prior finding and stated that a committee had been formed to address this issue. We spoke with the Vice President of Development at Megasys, the current vendor for HMS, who stated that a security violation report could be developed. This type of report could be used by management to monitor the use of the system.

### **Inventory**

The prior finding also noted that the POS system did not properly remove items from the inventory listing. Management concurred with the prior finding but failed to specifically address this issue in the Management’s Comment section of the finding. Based on discussions with central office staff and park personnel, they believe that the cause of this problem is human error and could be resolved with proper training.

### **Access to Cash**

During our walkthrough at the HHSP restaurant, we noted that an employee was using the cash drawer key to access the cash drawer instead of using the “no-sale” button. The override of this cash drawer control results in management’s inability to rely on the system to capture the number of “no-sale” transactions. As a result management cannot effectively monitor controls and ensure that risks associated with cash sales are mitigated. In addition, the cash drawer key should be maintained by management rather than the cashier. This was noted in the prior finding at Montgomery Bell State Park, and management concurred with the finding and stated that a committee had been formed to address this issue.

## **Hospitality Management System (HMS) and Point of Sale (POS) System Access**

We performed testwork on 25 individuals with access to HMS and 25 individuals with access to the POS system as of January 19, 2006, to determine if their access was appropriate based on their job duties and to ensure that the individuals were still employees of the department as of that date. The results of this testwork were as follows:

- For one individual with access to HMS (4%), the access request form could not be found.
- For one individual with access to HMS (4%), the employee's actual level of access did not match the access level requested.
- Three individuals with access to HMS (12%) had a level of access that was not needed to perform their job duties. This part of the testwork was based on discussions with the employees' immediate supervisors.
- For two individuals with access to HMS (8%), the supporting documentation provided did not specify the level of access being requested.
- Three Megasys employees with access to HMS (12%) were not required to complete an access request form.
- Four individuals with access to the POS system as of January 19, 2006, (16%) were no longer employees of the department as of that date.
- Sixteen individuals with access to the POS system (64%) had a level of access that was not needed to perform their job duties. This part of the testwork was based on discussions with the employees' immediate supervisors.
- For six individuals with access to the POS system (24%), the access request form could not be found.
- For three individuals with access to the POS system (16%), the supporting documentation provided did not specify the level of access being requested.

During the audit period, the department developed an HMS and POS security access form which is used to document the level of access being granted. Testwork revealed that HMS and POS users that had access prior to the development of the new access form were not required to complete the new form once it was developed, and management did not conduct a review of these users' access to ensure that their existing level of access was appropriate. In fact, the above-mentioned testwork revealed that multiple users had a level of access that was not required to perform their job duties.

We also performed an analytical review of the POS void reports that were obtained from central office management for each resort park for the period May 1, 2004, through January 20, 2006. This review revealed that voids could not be identified with a specific employee. The prior finding noted that some POS users did not have specific user identification. Based on current audit testwork, this issue has not been corrected; however, the department has written

procedures which address the use of generic user identifications and established compensating controls. For example, when two or more employees use the same cash drawer, both employees are required to sign the shift close report. In addition, all voided transactions require the completion of a correction form which is discussed further in finding 2. However, in our cash receipts testwork at HHSP we found that all employees using generic user identifications were not consistently signing the shift close reports, and they were not consistently completing the correction forms for voids and corrections. For example, a review of the void reports for the period May 1, 2004, through January 19, 2006, at each HMS/POS state park revealed a significant number of voided transactions that could not be tied to specific users as follows: Fall Creek Falls State Park – 42% of the total, or 4,561 voids; Henry Horton State Park – 86% of the total, or 1,565 voids; Montgomery Bell State Park – 52% of the total, or 2,590 voids; Natchez Trace State Park – 37% of the total, or 394 voids; Paris Landing State Park – 20% of the total, or 441 voids; and Pickwick Landing State Park – 32% of the total, or 1,721 voids.

The POS system user is required to select a void explanation from a standardized menu. During the analytical review of the void reports noted above, we found voids for either diesel or regular gasoline purchases, and the reason for the void was not reasonable. For example, reasons noted were “changed mind” or “dropped plate.” These reasons do not appear to apply to purchases of diesel or gasoline.

The lack of controls and management review over cash, voiding transactions, correcting transactions, and “no-sale” transactions creates an environment where theft could easily occur and go unnoticed. A faulty inventory system could allow items to be lost or stolen and not be detected. Unauthorized or unnecessary access to HMS could allow inappropriate activity on the system or allow someone to cover up a theft. When management neither requires unique user identifications nor ensures compliance with existing procedures, there is an increased risk that management will not be able to easily identify users with a questionable transaction, nor will they be able to identify users with excessive voids.

### **Recommendation**

The assistant commissioners for state parks should ensure that all HMS and POS procedures are properly followed, including those related to voiding, correcting, and “no-sale” transactions, system/power failures, and generic user identifications. A security violation report should be created and reviewed by management to ensure that all access is authorized. Management should ensure that either the inventory function within HMS is operating correctly or provide additional training to those with inventory responsibilities. Management should require employees to use the “no-sale” button to open the cash register instead of using the cash drawer key. Furthermore, the cashier should not have access to the cash drawer key. The key should be maintained by management.

Management should periodically review the level of access for all HMS and POS users to ensure that the appropriate level of access has been granted. In addition, procedures should be established and implemented to promptly cancel a user’s HMS or POS access when an employee

is terminated from the department or is transferred to a job which does not require HMS or POS access. Management should ensure that all access to HMS and POS is documented on the security access form and that these access forms are properly approved and maintained. Subsequent changes to a user's level of access should be documented on an approved access form.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management's Comment**

This finding has five issues addressed by the auditors. Management will respond to each issue separately. Management concurs with all issues addressed by the auditors.

#### **I. Policies and Procedures**

(a) Void Procedures: We concur. We agree that all voided transactions should be justified and that excessive voids of items may indicate either training or integrity issues. The Hospitality Management System (HMS) requires a mandatory reason for every voided transaction that occurs. These were standardized and placed on all Hospitality Management Systems in 2006 and can appropriately explain any void that occurs. Management will retrain users on the proper use of voids and void procedures.

(b) Manual Credit Card Machine: We concur. All Point of Sale (POS) locations were issued manual credit card machines in case of HMS/POS system failure or power failure when Megasys was implemented in 2001. Management will be instructed to verify before June 30, 2008, that they have a manual credit card machine available for POS outlets, and if one is not available, to procure one immediately.

(c) "No Sale" Procedures: We concur. "No sale" reports, which have been available since 2001, should be monitored daily as stated in the *Administrative Policies and Procedures Manual*. The *HMS Procedures Manual* has been updated instructing management to review "no sale" reports daily and will be redistributed and reviewed with each POS location by August 31, 2008.

#### **II. Security Reports**

We concur. When the State of Tennessee purchased the HMS system in 2001, the system did not include a security violation report. The report could have been developed at an additional cost because it was a custom report. At that time, management did not approve the additional

funding for this custom report. However, in response to the current Financial and Compliance audit in 2006, TDEC requested the custom report. Megasys developed a User Report, which identifies every user actually utilizing the system, their time of access, the location (terminal) of access, and what menus were accessed. This report can identify: (1) whether a single user apparently migrates from one terminal to another (which could potentially show multiple users using the same ID); (2) if a single user is accessing menus not authorized; or (3) other potential security issues. In February of this year we implemented an upgrade to the HMS system, moving from Megasys 10.23 to a new Windows based Megasys product, Portfolio, which has a more aggressive security notification system. If someone attempts to log in and fails to gain access three consecutive times, an e-mail is sent from within the Portfolio e-mail system to the person whose ID was being used to gain access. After five failed attempts, the account is locked and to regain access the employee whose ID was being used will need to contact a system administrator. A report identifying these attempted security violations is available in Portfolio and will allow management to view the failed log in attempts by date and by user ID. Policies and procedures will be updated to indicate: (1) who will review the report; (2) how often the report will be reviewed; and (3) how the review will be documented.

### **III. Inventory**

We concur. The issue with the POS inventory system not removing items sold from the inventory listing has been corrected. The majority of issues are human error and continued training is resolving the problems as they are identified.

### **IV. Access to Cash**

We concur. Policies and procedures restricting the use of the key for cash registers utilized with the POS system have been developed and were implemented in 2006. Management will readdress this procedure at all HMS/POS locations.

### **V. Hospitality Management System and Point of Sale System Access**

We concur. Security settings within HMS are monitored and tightened continuously while at the same time we must allow staff to perform their various job duties. Only staff designated as system administrators within the central office is allowed to setup new users within the system. This is done in order to keep all security access to HMS controlled and as consistent as possible. Also, it should be noted that very few users in the field have a full understanding of the entire HMS system and the security configurations or why specific access to various applications would or would not be necessary.

Procedurally, park management in the field should alert central office system administrators immediately when an employee leaves employment. The central office system administrators are completely dependent upon receiving that information from park management. Subsequent to discussions with the auditors during their fieldwork for this audit, we asked park management to review the list of staff at each park that currently have access, and to adjust

security access appropriately. This is done every six months. The last review of the HMS accounts occurred in February/March 2008.

We documented the access for the Megasys Central Reservations staff using the standard access request form. Also staff that previously had access for which there was no form on file is now documented. All new employee access requires the submission of the access request form; there are no exceptions.

We still have the need to use the generic POS IDs. As noted, internal controls and procedures have been developed and put in place to compensate for this. HMS users have been instructed to follow these procedures every day.

We are currently researching with Megasys what options are available that will allow a single shift to be closed for multiple cashiers. This would allow each person to have his/her own unique POS ID, but combine their sales and revenues to close their shifts together within the system. This would also address many of the “generic user” void issues.

#### **Corrective Actions to Be Taken:**

To ensure compliance with all HMS/POS procedures, the Assistant Commissioner will ensure that classes will be conducted by August 31, 2008, involving those operations currently identified as having POS and HMS operations audit exceptions. Policies and procedures will be updated based on the current Financial and Compliance audit findings.

Management responsible for the HMS system will address the audit findings with all HMS users by September 30, 2008. This will include providing supervisors and users with revised documents and procedures to assist them in their operations and daily/weekly review of information and controls.

---

#### **STATE PARKS**

We reviewed with parks administration at the central office in Nashville the various controls used to manage the state parks and reports issued by the parks including park policies and procedures. During each audit of the department, we select various parks to visit. We selected the following four parks to visit during this audit: Henry Horton (Marshall County), Nathan Bedford Forrest (Benton County), Reelfoot Lake (Lake and Obion Counties), and Sycamore Shoals (Carter County). For those parks, we obtained and reviewed the profit-and-loss reports prepared by the state parks central office to analyze individual park performance. We obtained listings of park gift shop inventories and golf proshop inventories. We reviewed the most recent internal audit report for each park to be visited to determine if additional audit objectives needed to be added. Following this overview, we visited the parks and performed testwork on cash receipts, lease agreements, inventories, gasoline inventory, and expenditures.

## Cash Receipts

The objectives of our cash receipts work at the state parks were to determine whether

- cash handling duties at the parks were adequately segregated;
- cash was adequately safeguarded from receipt until deposit in the bank;
- cash receipts were deposited timely;
- voids and “no-sale” transactions were properly reviewed and approved;
- gift certificates were handled properly;
- proper rental fees were collected for rooms and/or cabins;
- escrow receipts were properly accounted for;
- free or reduced meals were only given to eligible employees or others who were eligible; and
- other departmental policies and procedures were followed.

At each park visited, we interviewed personnel and performed walkthroughs of procedures to obtain an understanding of internal controls over cash receipts. For each retail operation in the park, we selected a nonstatistical sample of days when cash was received. Nathan Bedford Forrest, Reelfoot Lake, and Sycamore Shoals use manual cash registers, and Henry Horton uses automated systems called the Hospitality Management System (HMS) and Point of Sale (POS) system. At all four parks, we compared cash receipts to the daily sales reports and the deposit slips to determine if the receipts were deposited timely and intact. At Nathan Bedford Forrest, Reelfoot Lake, and Sycamore Shoals, we reviewed cash register tapes for evidence of review and approval of “no-sale” transactions and voids, and at Henry Horton, we obtained the void and “no-sale” reports from each system. We reviewed gift certificate transactions to determine if they were properly recorded. For the cabin and inn operations, we compared entries in the escrow receipts ledger to the retail operations report, the sales report for the day, and the deposit slip to determine if proper rates were charged and all escrow receipts were properly accounted for in the HMS and deposited timely. As part of our cash receipts testwork at the Henry Horton restaurant, we noted the employees and/or others who were given free or reduced meals and determined if those receiving meals were eligible.

Based on our interviews, reviews, and testwork, we concluded that

- cash handling duties at the parks were not always adequately segregated;
- cash was not always adequately safeguarded from receipt until deposit in the bank;
- cash receipts were not always deposited timely;
- voids and “no-sale” transactions were not always properly reviewed and approved;
- gift certificates were not always handled properly;

- free and reduced meals were sometimes inappropriately given to employees or others; and
- other departmental policies and procedures were not being followed.

These problems are discussed further in findings 2 and 3.

The collection of rental fees for rooms and/or cabins and the accounting for escrow receipts were properly handled in all material respects.

### Lease Agreements

The objectives of our testwork on lease agreements were to determine whether

- the agreements were approved prior to their implementation; and
- the amounts of the payments made by the lessees complied with the terms of the agreements.

Since the parks that we visited did not have any leases, we relied on the department's internal audit report of a recent review of leases at the following four state parks: Fall Creek Falls (Bledsoe and Van Buren Counties), Natchez Trace (Henderson County), Roan Mountain (Carter County), and Tims Ford (Franklin County). This internal audit report was performed to determine if the agreements had been approved prior to their implementation and payments complied with the terms of the agreements.

As a result of the testwork performed by internal audit, we concluded that the lease agreement approval process and the amounts of the payments made by the lessees were proper in all material respects.

### Inventories

The objective of our testwork on inventories was to determine whether proper procedures were followed for safeguarding and accounting for retail inventories. We gained an understanding of the parks' procedures over inventories. We compared the year-end physical inventory count sheets to the inventory totals included on the revenue and expenditure reports sent to the parks administrative office in Nashville. We observed inventories to determine if they were in secure locations and properly safeguarded from loss or theft. We concluded that the physical inventory count sheets reconciled to the totals on the reports sent to Nashville; however, the safeguards were not always adequate. These inadequate safeguards are discussed further in finding 4.

## Fuel Inventories

The objective of our testwork on fuel inventories was to determine whether proper procedures were followed for safeguarding and accounting for fuel inventories. We compared the differences between the current and prior stick measurements taken for all fuel storage tanks at the parks visited to the gallons issued according to the fuel use tickets. For any differences of eight gallons or more, we determined if proper investigations or follow-up reports were performed. Based on testwork performed, we noted that park management had significant differences that they did not investigate or properly report to the appropriate officials. These inadequate safeguards and differences are discussed further in finding 5.

## Expenditures

The objectives of our expenditures testwork were to determine if expenditures charged to maintenance, professional and administrative services, and supplies were properly approved, were supported by an invoice or other appropriate documentation, and were in compliance with applicable policies and procedures. To accomplish this objective, we reviewed the state's and departmental purchasing policies and procedures and obtained an understanding of the internal controls being used. We also tested a nonstatistical sample of expenditures for each park visited.

We concluded that expenditures were properly approved, supported, and made in accordance with the state's and/or departmental purchasing guidelines.

## **2. Top management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts, and as a result, the risks of fraud, waste, abuse, and misappropriation of state funds are increased**

### **Finding**

Cash is received at various locations in the Tennessee State Parks such as golf courses, inns, restaurants, and gift shops. Although management has written policies and procedures which, if followed, would reduce the risk of having cash stolen, top management has not ensured that park management and staff follow the established policies and procedures already in place.

As noted in the prior five audits, the department's control environment and related controls over cash receipts at the state parks were inadequate. In prior audits, management stated that they would correct the problem. Specific responses from management are listed in the Appendix to this report. In addition, during the current audit, top management reported through our fraud risk interviews that the most likely area for fraud to occur would be in cash receipts at the state parks. Nevertheless, problems were again noted with the cash receipting process. These problems included the following:

## Central Office State Park Gift Shop

- Management has not ensured proper segregation of duties over cash receipts and deposits. One employee in the central office in Nashville prepares the cash receipts, prepares the deposit, and takes the deposit to the bank.
- No one performs a reconciliation of cash receipts with the deposits.
- Neither management nor the employee responsible for the receipt books could account for 12 receipts that had been removed from the receipt book.

## Henry Horton State Park

For 10 of 25 days of receipts tested (40%), staff did not deposit cash in accordance with the department's policy for deposits, which requires night deposits to be made on weekends. The departmental Administrative Policies and Procedures Manual, Chapter 2, Section 5.6, Depositing the Money, states, "If the accumulated amount is \$500.00 or more and on a weekend, a Deposit Slip must be prepared, placed in a lock bag, and placed in the bank's night deposit within 24 hours."

We found that:

- Staff at the campground, skeet and trap range, and swimming pool operations collected funds over five days totaling more than \$500 without making a deposit.
- The park office neither maintains a mail log nor writes a receipt as the mail is opened for revenue received through the mail.
- The golf course management does not require two employees to count and verify the day's receipts or institute other internal controls as required by the Hospitality Management System (HMS) Procedures Manual. For 20 of 25 inn receipts tested (80%), the Shift History Report was not signed by both the employee and the supervisor. The Shift History Report is printed at the end of each shift and is used to document the amount received for each method of payment (credit card, cash, check). For 24 of 25 days of cash receipts tested at the restaurant, gift shop, camping, and other park operations (96%), park management could not provide documentation to indicate that there were two persons present when the cash receipts were counted. According to the HMS Procedures Manual, when two employees use the cash register during the same shift,
  - . . . both employees must count and receipt the money to management and sign to verify the cash drop. At no time will one person assume responsibility for cash with out having verified, signed receipts by all persons who handled cash transactions.

In addition, the HMS Procedures Manual states,

If shift personnel arrive at staggered times, when the second employee signs in, a Shift report must be run and the drawer counted by both persons with signatures verifying the cash count (including the till) at that time, and the signed cash count along with the shift report must be included with the daily paperwork.

- The golf pro shop staff did not provide cash receipts for 11 of 24 days in the sample (46%). In addition, the golf pro shop snack bar could not provide cash receipts for any of the days tested (with the exception of a few employee discount receipts).
- At the golf course, we noted that both copies of the receipt, the original and the carbon, were maintained, indicating that the customer did not receive a copy of the receipt. In addition, we found that the golf course snack bar did not use a carbon copy receipt and thus did not issue the customer a copy of the receipt. Furthermore, the golf course snack bar and the park's restaurant did not have a sign posted to "notify management if a receipt is not issued." According to the departmental Administrative Policies and Procedures Manual, Chapter 1, Section 5.2, Cash Register Controls, Item 4:

The transaction must be entered in the cash register at the time funds are received and the customer must always be issued a cash receipt. A sign should be posted at the cash register asking the customer to notify management if a receipt is not issued.

- Testwork at the golf course revealed that there were a total of six gift certificates redeemed in 24 days of cash receipts tested. Of the six redeemed gift certificates, five were not canceled or voided. The remaining gift certificate could not be located by golf course staff.
- Testwork at the golf course revealed that for 4 of 24 days of receipts tested (17%), staff did not explain on the correction slip the reason for 12 voids. In addition, there was no evidence that park management reviewed the number of voids at the snack bar location. Furthermore, there were 4 of 24 days that had negative transactions. Three of the four days did not have correction slips to explain why a negative transaction was performed. These three days consisted of four negative transactions. This issue is discussed further in finding 1.
- Park staff did not properly document 14 of the 29 voids we noted in our restaurant cash receipts testwork.
- Of the 25 days of inn cash receipts tested, we noted a total of 26 voids. However, for 5 of the 26 voids (19%), staff had not attached a correction form for the void to document the purpose of the void.
- Testwork revealed that there were 195 "no-sale" transactions on 10 of 25 days tested. Of these transactions, 193 transactions occurred at the golf course, and the remaining 2 were at the restaurant. We found no evidence of management's review or

explanation of these transactions to determine the cause. As noted in finding 1, park personnel were unaware that a “no-sale” report could be produced.

- At the restaurant, the cash register keys were maintained at the cash register. This issue is discussed in finding 1.

### **Nathan Bedford Forrest State Park**

We found that:

- The office clerk opens the mail, prepares the receipts, prepares the deposits, and prepares the information to be sent to the central office for posting to the accounting records. Therefore, park management has not adequately segregated cash-related duties.
- Park staff did not document 20 “no-sale” transactions on the cash register tape that occurred in 9 of 25 days tested.
- Management did not restrict access to the cash register’s training mode which allowed employees to open the cash register and print receipts. These training transactions are included on the closing cash register tape but are not included in the total sales for the day. Although these training transactions are similar to “no sale” transactions, staff have not documented the nature of these transactions so that management can monitor the propriety of the transactions.

### **Reelfoot Lake State Park**

- At the inn, an employee who prepares cash receipts is also responsible for periodically accounting for the cash receipt books. In addition, all clerks working in the park office have the ability to prepare cash receipts and are involved in billing and accounts receivable functions. In a strong control environment, management segregates cash-related duties to prevent one employee from having complete control of the entire cash receipting process.
- Testwork revealed that for 9 of 25 days tested (36%) there was no documentation that two persons were present when funds were counted, as required by policy.
- Testwork revealed that for 19 of 25 days tested (76%) park staff had not investigated and/or could not explain 107 “no-sale” transactions.

### **Sycamore Shoals State Park**

We found that:

- There was no indication of manager review or documentation of “no-sale” transactions for 11 of 14 days of cash receipts tested (79%). The departmental Administrative Policies and Procedures Manual, Chapter 1, Section 5.2, Item 2, states, “Management is required to monitor the number of “no-sale” transactions by

initialing the number of “no-sales” recorded on the “Z” tape or shift close report. Excessive “no-sales” are to be investigated and an explanation documented.”

Without an adequate control environment and top management’s expectation that park management and staff follow established policies and procedures, the risk of fraud, waste, abuse, and misappropriation of cash is increased. Employees could easily steal state funds without detection by management. The issues in this finding, along with the issues in finding 1, create an environment susceptible to theft.

### **Recommendation**

The Commissioner and top management should immediately take steps to ensure the consistent application of departmental policy with regard to cash receipts at all state parks and at the central office. The Commissioner, top management, and staff should ensure deposits are made in a timely manner. Management at the appropriate levels should take steps to ensure proper segregation of duties between opening the mail, preparing cash receipts, preparing deposits, and posting to the accounting records. Management should also ensure there is an independent employee who reconciles the mail log, cash receipts, and deposits. Management should require at least two people to participate in the counting of daily receipts, and they should ensure receipts are maintained as required by policy. In addition, management should ensure that gift certificates are consistently voided, entered in the cash register, and maintained. Management should periodically review void and “no sale” transactions and investigate any that appear unusual.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management’s Comment**

We concur. Park management realizes the importance of complying with established policies and procedures related to cash receipts and cash deposits. Park managers, park rangers, and park administrative staff attended classes in 2007 that covered the majority of issues in this finding. Management feels that overall improvements in these areas at all parks will be made as a result of these classes.

We will continue to instruct park employees on the proper procedures to follow regarding receipting cash, depositing cash, voiding gift certificates, and reviewing “no sale” transactions. The importance of segregation of duties related to these processes will be emphasized. However,

as pointed out in the last audit, management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks with small staffs will establish other checks and balances to alleviate the lack of staffing which is not likely to be corrected with the current budget problems facing state parks.

**3. Management and staff have not followed the free and reduced meal policy at Henry Horton State Park, and free or reduced meals were provided to ineligible individuals**

**Finding**

Some employees of the department are eligible to receive free and reduced meals in certain circumstances. The Department of Finance and Administration's Policy 16, Employee Housing and Meals, states in paragraph 15.b. that meals shall be provided without charge to employees "when it is determined by the appointing authority that situations exist that render it either impractical, unsafe, or imprudent for meal breaks to be taken away from the facility grounds." The Department of Environment and Conservation has established policies for providing meals to its employees. However, as noted in the previous two audits, park management and staff have not always followed this policy. Management concurred and indicated that steps would be taken to correct the problems found to reduce the risk of lost revenue and provide better control over the employee meal program. However, in spite of these assurances by management, problems were still noted.

The following exceptions were noted at Henry Horton State Park:

- There were 23 instances noted in which employees received more than one free meal for the day. According to Tennessee Department of Environment and Conservation (TDEC) state park policy 301, ". . . Only one free meal will be allowed for every daily shift."
- Four people who received free or reduced meals were not employees of the park; they were not on the employee listing and did not have a time sheet. Therefore, these people are considered ineligible for employee meals.
- Park management has not reconciled the Employee Meal Register with the signed guest checks. According to TDEC park policy 301, "The cashier and night auditor must reconcile the signed guest checks to the Employee Meal Register/HMS [Hospitality Management System] listing on a daily basis. Park Management will review and initial Employee Meal Register/HMS list on a daily basis and investigate any discrepancies."
- None of the Employee Meal Registers reviewed included the restaurant check number. According to TDEC park policy 301 "Parks with HMS will generate a listing of discounted meals and record the check number on the Employee Meal Register."
- For 76 of 281 free meals tested (27%), the employee was not on duty two hours before and two hours after receiving a free meal. According to TDEC policy 301

effective January 15, 2005, “Food Service Employees will receive a free meal only if they are on duty two hours before and two hours after the meal is consumed.”

- For 22 of 479 free and reduced price meals received by employees (5%), the employees were not on duty when the meal was received. According to TDEC park policy 301, “to be eligible for a reduced price meal, individuals must be on-duty employees of the park with the restaurant facility.”
- For 140 of 326 meal checks for free employee meals (43%), the employee’s title was not included on the meal check issued by the servitor or the Employee Meal Register. According to TDEC policy 301, employees receiving free meals “must legibly sign their name and job title on the HMS generated meal check issued by the servitor.”
- Eight of 203 employees, who were eligible for a free meal and received a free meal (4%), did not sign the Employee Meal Register. According to TDEC policy 301, “All employees, HMS and non-HMS, eating a free meal must fill out the first open line of the Employee Meal Register print and sign his/her name.” The Employee Meal Register was not completed or was missing for 10 of the 25 days tested (40%). The missing Employee Meal Registers accounted for 123 free meals.
- Employees did not always sign the employee meal check legibly. In eight instances, the signature was either not legible or not present. We found additional instances during our testwork; however, park personnel were able to identify the signatures. According to TDEC park policy 301, Section IV(E) and V(E), employees receiving free meals “must legibly print and sign their name . . . on the HMS generated meal check issued by the servitor.” Employees receiving reduced meals “must legibly print and sign their name on the HMS generated meal check issued by the servitor.”

If management allows employees to abuse the free and reduced meal policies and proper procedures are not followed, the state loses revenue by providing meals to ineligible individuals. If proper records of those receiving free meals are not reviewed and maintained, the likelihood increases that more ineligible employees will receive free and/or reduced meals.

### **Recommendation**

The Assistant Commissioner over State Parks should assess why attempts to correct this problem over the past two audits have failed. The Assistant Commissioner should then take steps to ensure that the employee meal policy is consistently applied at all state parks, and especially at Henry Horton State Park. State park managers, particularly restaurant personnel, should be clearly instructed on the proper procedures regarding employee meals. Management at each state park and the central office should periodically review documentation regarding employee meals such as the Employee Meal Register and meal checks to confirm that procedures are being followed. In the event that exceptions are found during this review, appropriate management should take corrective disciplinary action appropriate for the situation and seek reimbursements of meal costs when necessary.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect

exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management's Comment**

We concur. Listed are the corrective actions that the department has taken to ensure the employee meal policy is consistently applied at all state parks and specifically Henry Horton State Park.

- On June 15, 2006, the *Employee Meals and Coffee Breaks Policy Directive 301* was revised. On July 28, 2006, the Assistant Commissioner sent an email to all park employees and management clarifying the revisions in the policy.
- On August 16, 2006, a memorandum and instructions were distributed to the Eastern Director of Hospitality Services and to all restaurant management. This memo outlined which meals qualify for free or reduced meals, as well as who is eligible.
- In October 2006, a Self-Audit was established to include a section covering the employee meals policy. Management receives this self-audit from each restaurant manager quarterly. We have been assured that the policy is being followed in all state parks.
- Management at each state park is required to review documentation for employee meals each day. The documents are compiled from the Night Auditor and reviewed the next day by the manager. Park management maintains all records for inspection.
- During these reviews, infractions of the policy were discovered and appropriate disciplinary action was taken. Central Office management and the Assistant Commissioner continue to review documentation and procedures of the employee meals policy.

#### **4. Management has not assessed and mitigated risks associated with inadequate controls over inventories at state parks, which increases the risk of misappropriation of assets**

### **Finding**

As noted in the previous two audits of the Department of Environment and Conservation, management's controls over state park inventory were inadequate. Management concurred with the prior finding and stated that four new Area Managers would help monitor the inventory process and reinforce the policies and procedures governing inventories. Management also stated that they would seek ways to further segregate the duties of purchasing, recordkeeping, and receiving inventory. Management further stated that the Gift Shop Administrator and Inn and Restaurant Management Specialist would spot check inventories, review all inventory adjustments, and evaluate segregation of duties. Also, management replied that the Hospitality

Manager or Park Manager in charge of the facility would approve inventory adjustments and that maintenance funds would be requested to safeguard inventoried items by enclosing them in a gift shop room or behind glass panels.

In their response to this finding in the audit for fiscal years June 30, 2001, and June 30, 2000, management stated that it would continue to provide training to park employees regarding the proper segregation of duties for purchasing and receiving merchandise.

Although some improvement has been made, we still found control weaknesses during our visits to the state parks and the central office.

### **Central Office State Park Gift Shop**

- Management has not properly segregated duties at the Gift Shop. The Director of Gift Shop Operations performs the custodial, recordkeeping, and purchasing functions related to inventory.
- Staff prepare cash receipts when items are sold; however, no one independent of the process reconciles the inventory items sold to cash collected and receipted.
- The Director of Gift Shop Operations performs a monthly inventory. However, the director does not compare and/or reconcile the inventory count to an independently prepared inventory listing which would show the inventory activity (beginning inventory, purchases, sales, and ending inventory).

### **Henry Horton State Park**

- Park management at the restaurant and golf course has not adequately segregated the purchasing, custodial, and recordkeeping duties.
- At the golf course, management has not reviewed or observed obsolete inventory before it is disposed of by employees thus increasing the risk that inventory may be improperly removed.
- Management has not adequately safeguarded inventories at the golf course from misappropriation. During our walkthrough of the Golf Pro Shop, we observed cases of drinks stacked in the hallway rather than in a secure location.
- According to park staff and as confirmed by the Golf Course Manager, the Golf Course Manager allowed customers and employees to take inventory items before paying for them. The Golf Course Manager claimed that the names and amounts owed were kept on a dry-erase board until the employees and customers paid for the items.

## **Reelfoot Lake State Park**

- Management has not properly segregated the ranger's duties for the purchasing, receiving, daily custodial functions, and annual inventory of items. When duties are not adequately segregated, the risk of fraud, waste, abuse, and misappropriation of inventory items is increased.

### **Recommendation**

The Commissioner should determine why previous attempts to properly train employees on proper segregation of duties, recordkeeping, and receiving have not been effective. Furthermore, park personnel should ensure that custodial, recordkeeping, and purchasing functions over inventories are properly segregated; cash receipts are prepared when items are sold; an independent person reconciles inventory items sold with cash collected and receipted; monthly inventory counts are reconciled with inventory activity; obsolete inventory is reviewed before being disposed; and inventories and cash are adequately safeguarded from theft. In addition, park personnel should not allow anyone to take any inventory items without first paying for each item.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management's Comment**

We concur. Park management realizes the importance of complying with established policies and procedures related to controls over inventories. Park managers, park rangers, and park administrative staff attended classes in 2007 that covered this issue. Management feels that overall improvement in this area at all parks will be made as a result of these classes.

We will continue to instruct park employees on the proper procedures to follow regarding recording and receiving inventory. The importance of segregation of duties related to custodial, recordkeeping, and purchasing functions over inventories will be emphasized. However, as pointed out in the last audit, management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks with small staffs will establish other checks and balances to alleviate the lack of staffing which is not likely to be corrected with the current budget problems facing state parks.

**5. Management has not established adequate controls over gasoline and diesel inventories, which increases the susceptibility of fuel inventories to fraud, waste, or abuse**

**Finding**

During the current audit, we found that management had not established adequate controls over the department's fuel inventories which resulted in staff's failure to dispense and account for gasoline and diesel fuel inventories as required by the department's policies and procedures.

Our testwork specifically found that staff did not regularly take fuel inventory measurements; staff did not reconcile the differences of fuel on-hand to the inventory records; management and staff did not monitor, investigate, or properly report differences in the amount of fuel used per the fuel use tickets to the actual gallons pumped based on pump meter readings; and management did not limit the number of employees with access to the inventory to only those employees who were responsible for fuel inventories.

Chapter 32, Section 5.6, of the department's Administrative Policies and Procedures Manual requires each state park to measure the fuel in the gasoline and diesel tanks, reconcile that amount with perpetual records, and reconcile fuel issue tickets with actual gallons pumped. Any material differences are to be reported to the appropriate officials.

During the current audit, we noted the following weaknesses at the state parks we visited:

**Henry Horton State Park**

- Staff did not always perform the required "stick test" used to measure the amount of fuel in the tanks. From October 1, 2005, to February 28, 2006 (151 days), there were only 57 days in which a stick test was performed.
- In 12 of 57 "stick tests" reviewed (21%), we found that staff did not investigate or report to appropriate officials any significant differences identified when comparing the fuel use tickets to the prior "stick test" and current "stick test." We noted that differences ranged from 8 to as much as 75 gallons.
- Twenty employees have keys that can access the locks on the tanks and the pumps. One of these locks is for the door where fuel is delivered by the gas company, and the other is to the lock on the pump. Under the current arrangement, employees could circumvent the pump meter and siphon fuel directly from the tank with no record of the gallons taken. Fifteen of these 20 employees were not even supervisors.

**Nathan Bedford Forrest State Park**

- Staff did not always perform the required "stick test" used to measure the amount of fuel in the tanks.

- Staff did not reconcile the amount of gas pumped according to the Daily Tank Inventory Form or “stick test” with the number of gallons pumped according to the fuel tickets in 6 of 25 days tested (24%). These variances ranged from 3.2 to 62.2 gallons. None of these variances were investigated or reported to appropriate officials for review and follow-up.

Without adequate controls, the department is unable to detect or prevent shortages or loss of fuel occurring from instances of fraud, waste, abuse, or negligence. With the increasing cost of fuel, the financial impact of this loss could be significant.

### **Recommendation**

The Commissioner should ensure staff follow departmental guidelines to maintain complete and accurate fuel inventory records. Top management should ensure staff regularly measure fuel tanks and reconcile the measurements with the perpetual inventory records. Also, staff should reconcile the amount of fuel used according to fuel tickets with the amount of fuel pumped according to the pump meter. The Commissioner should ensure that park management investigate any large or recurring variances. In addition, the number of persons who have access to keys for the gas and diesel tanks should be restricted to supervisory personnel. The Commissioner should identify staff to be responsible for the ongoing monitoring for compliance with the department’s policies and procedures to ensure controls are effective.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management’s Comment**

We concur. Management realizes that due to the soaring gasoline/diesel prices, internal controls over these inventories are especially important today more than ever. Park managers, park rangers, and park administrative staff attended classes in 2007 that covered *Chapter 32, Inventories of the Administrative Policies & Procedures Manual*. We feel that overall improvement in this area at all parks will be made as a result of these classes.

We will continue to instruct park employees on the proper procedures to follow regarding controls over gasoline and diesel inventories. Management will instruct employees to regularly measure tanks and reconcile the measurement with the perpetual inventory records. Any major discrepancies between the fuel measurements and fuel records will be investigated.

---

## **EQUIPMENT**

The objectives of our work related to equipment were to determine whether

- the department's equipment was adequately safeguarded;
- the equipment information in the Property of the State of Tennessee (POST) system for equipment assigned to the department was correct; and
- lost or stolen equipment was reported timely to the Comptroller's Office and removed promptly from POST.

We interviewed personnel and reviewed procedures to gain an understanding of the procedures for physical security over equipment and safeguarding of equipment, and for adding, deleting, and updating equipment information in POST. We selected a nonstatistical sample of equipment from POST costing at least \$5,000 at February 6, 2006. We tested equipment items to determine whether the item could be physically located, the description in POST matched the item, and the item had a state property tag. We obtained a list of all equipment reported to our office as lost or stolen for the period May 1, 2004, through January 3, 2006. From this list, we selected a nonstatistical sample to determine whether the items were removed from POST timely and were reported to our office timely.

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

- equipment was adequately safeguarded;
- the information in POST for equipment assigned to the department was correct; and
- lost or stolen equipment was reported timely to the Comptroller's Office and removed promptly from POST.

---

## **DIVISION OF UNDERGROUND STORAGE TANKS**

The primary functions of this division are to inspect underground storage tank facilities and to investigate and oversee the cleanup of leaking petroleum from underground storage tanks.

The division's rules and regulations require owners or operators of petroleum underground storage tanks to demonstrate that they are financially able to correct accidental releases of petroleum and to compensate third parties for bodily injury and property damage caused by the releases.

An owner or operator can demonstrate financial responsibility by participating in the department's Underground Storage Tank Fund, by meeting a financial test of self-insurance, or by using one of the other forms of financial assurance allowed by the U.S. Environmental Protection Agency.

## Underground Storage Tank (UST) Fund

The purpose of this fund is to provide tank owners or operators with a method of reducing the risk of personal liability for environmental cleanup costs associated with leaks from underground storage tanks. The fund revenues are generated from a \$.004 per gallon tax on all gas imported into the state and from the annual tank fees paid by the tank owners or operators. Fund expenditures consist of payments to participating tank owners or contractors for the site cleanups and of the division's operating expenses.

The objectives of our review were to determine whether

- management had procedures in place which ensured that tank owners or operators demonstrated financial responsibility;
- management had procedures in place which ensured that cleanup work was only performed by qualified Corrective Action Contractors (CACs);
- management had procedures in place which ensured that all cleanup work done by CACs was satisfactory and that the amount billed for this work was accurate;
- expenditures were properly approved, documented, and recorded and complied with applicable regulations;
- cleanup expenditures were submitted by the tank owners to the division within one year from the date of the work as required by the division's rules and regulations;
- contracts for cleanup contained the applicable licenses and registrations, certifications of liability insurance, and lists of current employees as required by the division's rules and regulations;
- the fund had a sufficient balance at June 30, 2007, to cover its claims over a reasonable period of time; and
- division staff paid fund invoices timely.

To accomplish our objectives, we reviewed the applicable laws and regulations, interviewed key personnel in the division, and reviewed supporting documentation to gain an understanding of the division's procedures. We reviewed and discussed the financial responsibility requirements and procedures with the Director and Assistant Director of the Division of Underground Storage Tanks. We compared the names of the contractors with the list of qualified CACs maintained by the department. We tested a nonstatistical sample of UST expenditures from the CACs for cleanup expenditures from May 1, 2004, to November 30, 2005. In addition, we tested a nonstatistical sample of UST CACs as of December 15, 2005. We examined the expenditures to ensure they were properly approved, documented, and recorded and complied with applicable regulations. We examined dates of invoices to determine that cleanup expenditures were submitted within one year of the completion of the work. Contracts between the underground tank owners and the CACs were examined to ensure that applicable licenses and registrations, certifications of liability insurance, and lists of current employees had been submitted. We reviewed the fund liabilities and discussed with appropriate officials the

adequacy of the fund balance. We analyzed the liability balance at year end and ensured that fund invoices were being paid timely.

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

- management had adequate procedures in place to ensure that tank owners or operators demonstrated financial responsibility;
- management did have procedures in place to ensure that cleanup work was only performed by qualified CACs;
- management did have procedures in place to ensure that cleanup work done by CACs was satisfactory and that the amount billed for this work was accurate;
- expenditures were properly approved, documented, and recorded and complied with applicable regulations;
- cleanup expenditures were submitted by the tank owners to the division within one year from the date of the work as required by the division's rules and regulations;
- contracts for cleanup contained the applicable licenses and registrations, certifications of liability insurance, and lists of current employees as required by the division's rules and regulations;
- the fund had a sufficient balance at June 30, 2007, to cover its claims over a reasonable period of time; and
- division staff paid fund invoices timely, in all material respects.

---

## **TENNESSEE ELK RIVER RESOURCES MANAGEMENT**

The Tennessee Elk River Development Agency (TERDA) was created in 1963 by the Tennessee General Assembly to develop and implement a program of comprehensive resource and economic development for portions of the Elk River watershed. In 1971, the Tennessee Valley Authority deeded TERDA certain land surrounding the Tims Ford Reservoir for development.

The Tennessee General Assembly, in Public Chapter No. 816, dissolved TERDA as of April 26, 1996. All powers, duties, contractual obligations, and functions of TERDA were transferred to the Tennessee Department of Environment and Conservation. In addition, all interests in real property and in water rights held by the TERDA were transferred to the department. The department accounts for these activities as Elk River Resources Management. The objective of our review of this area was to determine whether the assets that were transferred to the state from TERDA when it was dissolved have been properly recorded in the state's inventory system.

To accomplish our objective, we interviewed key personnel and reviewed the state's inventory system. As a result of this review and testwork, we concluded that all assets, except for land, have been recorded in the state's inventory system. See finding 6.

**6. The department has still not recorded land it acquired in 1996 from the Tennessee Elk River Development Agency**

**Finding**

In 1996, the Tennessee General Assembly dissolved the Tennessee Elk River Development Agency (TERDA) and transferred the assets of the agency to the Department of Environment and Conservation. During the past two audits, we noted that some of these assets had not been added to the state's inventory system. In response to the audit report released in May 2005, management responded:

We concur that not all of the TERDA properties have been included in the state's inventory system. The department has taken the following actions regarding the recording of land: (1) A spreadsheet regarding the TERDA properties has been submitted to the Department of Finance and Administration (F&A). The spreadsheet contains the reservoir project tract number, seller name, acreage, purchase price, and the book and page number of the deed of conveyance for the original land acquisitions; and (2) On November 5, 2004, the department sent electronic maps and property descriptions to F&A. Those maps and descriptions were prepared from recent surveys and cover approximately 2,000 acres of former TERDA land. We will continue to work to satisfy F&A's requirements to record the TERDA properties in the state's inventory system.

In response to the audit report released in November 2002, management stated that the department had taken appropriate action to ensure that the recreation facilities, buildings, and water system were properly recorded. In addition, management stated that they would continue to work with the Department of Finance and Administration, Real Property Management Division, to properly record the land on the state's financial statements.

During this audit, we again noted that the land TERDA had recorded on its books at \$3,933,740 has still not been added in the state's inventory system, thereby understating assets in the state's financial statements. Since 1996, there have been land transactions that have occurred in relation to this TERDA land, including the sale of land to private parties, which may ultimately affect the current valuation of the asset.

When the department's management does not properly account for and provide adequate documentation to the Department of Finance and Administration for proper recording, the state's assets as reported in the *Tennessee Comprehensive Annual Financial Report* are understated.

## **Recommendation**

The Commissioner should evaluate why this issue has not been resolved. The Commissioner should assign the appropriate employee within the department to work with the Department of Finance and Administration to promptly record this land in the state's inventory system, and the Commissioner should follow up to make sure this is done.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

## **Management's Comment**

We concur. A federal lawsuit brought by a group (Friends of Tims Ford) has been pending against the state. During the pendency of that lawsuit, it was not appropriate to move files that could be requested by the plaintiff in discovery. The department was notified on March 25, 2008, that the lawsuit has been dismissed. Although the plaintiff's time to appeal the dismissal has not yet expired, the department began steps to get the deed materials to the Department of Finance and Administration. The department identified a Records Disposition Authorization which will cover the handling of these records.

The records are located in the department's office in Winchester, Tennessee, where they are frequently used for reference to assist in answering questions from residents around the Tims Ford Reservoir and from government offices. Those records have been maintained continuously in the state's office in Winchester, and they are all of record in the Register's offices for Franklin and Moore counties. The original deeds are in the possession of the Tennessee Valley Authority because TVA purchased the properties for the Tennessee Elk River Development Agency.

The department is gathering the documents, preparing an index, and organizing the records for transport to Nashville. The final preparation of the documents will be completed in the department's Central Office, and the documents will be transmitted to the State Record office where they will be preserved on microfilm and CD. Paper copies will be made for the Department of Finance and Administration.

---

## **ENVIRONMENTAL SECTION RECEIPTS**

The Environmental Section has ten divisions plus eight Environmental Field Offices which are located across the state. Nine of these divisions and all of the Environmental Field Offices collect revenue from organizations regulated by the section. The divisions include

Underground Storage Tanks, Radiological Health, Solid Waste Management, Hazardous Waste Management, Air Pollution Control, Ground Water Protection, Water Supply, Water Pollution Control, and Dry Cleaners' Environmental Response Fund. The revenue received from the organizations regulated by these divisions provides practically all of the operational funding for the section.

The objectives of our testwork in this section were to determine whether

- cash receipting duties of employees in the Consolidated Fee Section in Nashville and the Environmental Field Offices were adequately segregated;
- all receipt books were secured and issued sequentially;
- access to the databases used to update customer accounts for fees and permits was adequately controlled;
- receipts were reconciled to deposits and to accounting records; and
- the Consolidated Fee Section assessed the appropriate late fees and followed collection procedures for delinquent accounts.

To accomplish our objectives, we reviewed all applicable policies and procedures. In the Consolidated Fee Section in Nashville, where most customer payments are received, we completed internal control questionnaires and flowcharts to gain an understanding of the office's cash receipting procedures to determine if cash receipting duties were properly segregated, and to determine if access to the customer databases was adequately controlled. We observed the receipt books being secured in a locked cabinet and examined the receipt book inventory log to ensure that all receipt books were distributed sequentially and all receipt numbers were accounted for. We tested a nonstatistical sample of receipts of the nine divisions of the environmental section from May 1, 2004, to February 28, 2006, to determine if the receipt information reconciled to the bank deposit and to the customer databases. We also tested a nonstatistical sample of late payments made to the department from May 1, 2006, to February 28, 2006, to determine if the Consolidated Fee Section had assessed the appropriate late fees and followed collection procedures for delinquent accounts.

We visited two of the eight Environmental Field Offices (Johnson City and Knoxville). The environmental specialists who serve as field inspectors for a particular part of the state are housed in these offices. Some field offices have employees from as many as eight divisions. Customers can also pay their fees at these field offices. The payments that are received at the offices are deposited at local nearby banks. At the field offices visited, we interviewed the staff and completed internal control questionnaires to gain an understanding of the cash receipting procedures and to determine if duties were properly segregated and receipts were issued and accounted for appropriately. We tested nonstatistical samples of receipts at the Johnson City and Knoxville field offices from May 1, 2004, to April 3, 2006, to determine if the receipt information reconciled to the bank deposit. We observed whether staff at the field offices had access to the customer databases, and we determined how updates to the databases were performed.

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

- cash receipting duties at the central office and the Environmental Field Offices were adequately segregated;
- all receipt books were secured and issued sequentially;
- access to the databases used to update customer accounts for fees and permits was adequately controlled;
- receipts were adequately reconciled to deposits and to the accounting records; and
- the Consolidated Fee Section assessed the appropriate late fees and followed collection procedures for delinquent fees in most instances.

---

## **EXPENDITURES**

The objectives of our work related to expenditures were to determine whether

- expenditures charged to contracts and grants for consulting services and travel by non-state employees were properly supported, charged to the proper allotment code and transaction code, in compliance with applicable regulations and contract or grant terms, and properly approved;
- sole-source contracts of the department were properly approved and justified, and initiated in compliance with applicable regulations;
- Solid Waste Assistance grant expenditures were properly supported, approved, and allowable;
- purchases made using payment cards were reasonable, adequately supported, and properly approved;
- payment card purchases exceeded the single-purchase dollar limit and complied with the *State of Tennessee Payment Card Cardholder Manual*;
- payment card transaction logs had been reconciled to the monthly statements;
- payment card cardholders had a signed application and maintenance form and cardholder agreement on file;
- cardholder cycle dollar-limit increases were justified;
- terminated employees' cards had been canceled; and
- the communication lines that the department paid for were actually used.

We interviewed key personnel and reviewed rules and policies to gain an understanding of the department's procedures and controls over contract management and payment processing. We obtained a list of expenditures charged to contracts and grants for consulting services and travel by non-state employees for the period May 1, 2004, through December 31, 2005. We

selected a nonstatistical sample of expenditures from this list to determine if the amounts paid were properly supported, charged to the proper allotment code and transaction code, in compliance with applicable grant or contract regulations, and properly approved. In addition, we obtained a list of sole-source contracts that the department had entered into during the period May 1, 2004, through January 1, 2006. We reviewed each contract to determine whether the justification for the sole-source contract was proper and if the contract was appropriately initiated. Furthermore, we obtained a list of grants for Solid Waste Assistance (allotment code 327.42, object code 13) for the period May 1, 2004, through November 30, 2005. We selected a nonstatistical sample of expenditures from this list to determine if the amounts paid were properly supported, approved, and allowable.

We reviewed the applicable rules 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 reasonableness, adequate documentation, and proper approvals. We also tested for purchases which exceeded the single-purchase dollar limit and for compliance with the *State of Tennessee Payment Card Cardholder Manual*. In addition, we tested listings of suspicious vendors, items purchased on a weekend or holiday, multiple purchases from an individual vendor which exceeded \$2,000 over a two-day period, and purchases of items which were prohibited by policies and procedures governing payment card purchases. We reviewed a sample of transaction logs to determine whether they had been reconciled to the monthly statements. We reviewed the department's justification for cardholder cycle dollar-limit increases. We reviewed the files of cardholders to determine if signed application and maintenance forms and cardholder agreements were on file. We reviewed evidence that terminated employees' cards had been canceled.

We obtained a listing (from the auditors on the Department of Finance and Administration audit) of the communication lines that the department paid for that had no outgoing calls during the period October 1, 2004, through September 30, 2005. We reviewed the listing with Billing Services staff in the Department of Finance and Administration to eliminate lines that would appropriately not have outgoing calls and tested a nonstatistical sample of the remaining lines to determine if the lines were still being used.

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

- expenditures charged to contracts and grants for consulting services and travel by non-state employees were properly supported, charged to the proper allotment code and transaction code, in compliance with applicable regulations and contract or grant terms, and properly approved, in all material respects;
- sole-source contracts of the department were properly approved and justified, with minor exceptions, and were initiated in compliance with applicable regulations;
- Solid Waste Assistance grant expenditures were properly supported, approved, and allowable, with minor exceptions;
- purchases made using payment cards were reasonable, adequately supported, and properly approved;

- payment card purchases did not exceed the single-purchase dollar limit and complied with the *State of Tennessee Payment Card Cardholder Manual*, except as discussed in finding 7;
- payment card transaction logs had been reconciled to the monthly statements;
- payment card cardholders had a signed application and maintenance form and cardholder agreement on file, except as discussed in finding 7;
- the justification for cardholder cycle dollar-limit increases was not always documented, as discussed in finding 7;
- terminated employees' cards had been canceled; and
- the department paid for communication lines that it was no longer using (see finding 8).

**7. The department did not follow established procedures for purchases made using payment cards, which increases the risk of fraud, waste, and abuse associated with potentially improper purchases**

**Finding**

The department's payment card users did not follow established procedures when making departmental purchases using the state's payment cards. The Department of Finance and Administration implemented the State Payment Card system in March 2002 to provide departmental personnel an alternative payment method for small purchases. A review of the department's purchasing and payment card process revealed the following internal control problems:

- In 9 of 25 instances of multiple purchases (36%) to a single vendor using payment cards, management apparently split invoices in order to use the payment card. The State of Tennessee Payment Card Cardholder Manual states, "Purchases shall not be artificially divided so as to appear to be purchases under \$400."
- The department's payment card coordinator did not adequately document the justification for cardholder cycle dollar-limit increases. Testwork revealed that for two of eight cardholders whose cycle dollar-limit was increased during the audit period (25%), the payment card coordinator could not provide evidence of the justification for the increase in purchasing capability for these cardholders. Section 3.0, State of Tennessee Payment Card Cardholder Manual, states that the cycle dollar-limit "is determined by the agency on an individual cardholder basis." However, management's authorization and justification of increases in the cardholders' cycle dollar-limits is essential for monitoring of purchases.

Testwork on the requirements for cardholders revealed that 12 of 40 cardholders reviewed (30%) did not have a signed State Payment Card Application and Maintenance Form on file. Section 2.0, State of Tennessee Payment Card Cardholder Manual, states, “. . . a State Payment Card New Account Application & Maintenance Form . . . must be completed and signed by the employee, the supervisor, and the division director.” These signed forms provide management with the cardholders acceptance of their responsibility to use the card in accordance with the state’s payment card rules and regulations.

When established procedures are not followed, management and staff cannot ensure that purchases are necessary, authorized, and in compliance with purchasing policies and procedures. The practice of splitting invoices to avoid bidding procedures is not only against state policies, but increases the risk of fraud and unnecessary costs to the state.

### **Recommendation**

The Commissioner, the payment card coordinator, and appropriate supervisory personnel should monitor the payment card process to ensure that purchasing and fiscal staff follow established policies and control procedures for payment card transactions. The Commissioner, in coordination with the payment card coordinator and supervisory personnel, should ensure appropriate disciplinary action is taken when staff fail to follow established policy and controls related to the purchasing or the payment card processes. The department’s fiscal and purchasing staff should continue to provide training to all staff that are responsible for purchasing with payment cards.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management’s Comment**

We concur. Management and the payment card coordinator have taken action to improve internal controls and compliance with the payment card manual. Regular meetings now occur between management from Accounting and Purchasing and the Payment Card Coordinator to discuss and resolve potential problems. Management will continue to emphasize the importance of following established payment card procedures.

## **8. The department paid for communication lines which were not being used**

### **Finding**

The division directors did not ensure that their staff routinely monitored the use of the department's telephone lines, and as a result, the department wasted state funds for unused lines. The department requests telephone service through the Department of Finance and Administration (F&A). F&A bills the Department of Environment and Conservation each month for the total number of phone lines requested by the department. Management of the department is responsible for monitoring the department's telephone line usage and informing F&A when lines are no longer needed. Upon notice, F&A begins the process of terminating the phone lines and discontinuing the billing for the terminated lines.

As a result of audit testwork performed by our office at the Department of Finance and Administration on phone lines of several departments, we determined that there were departments in state government that were paying for communication lines that were not being used. The Department of Environment and Conservation had 368 lines which had no outgoing calls during the period tested. We selected a random sample of 25 communication lines from the department's 368 lines. We found that 10 of 25 lines tested (40%) were either invalid or unused, based on several attempts at calling the numbers and discussions with department employees. The department spent \$338 on these ten lines in one month. When projecting this error to the population and multiplying by 12 months, we estimate the department spent \$55,132 on invalid or unused communication lines unnecessarily for the 12 month period. Of those ten communication lines, we specifically found that:

- Two lines were assigned to credit card machines at Montgomery Bell State Park but have not been used for at least two years.
- One line was out of service.
- Two were for lines which had outgoing messages stating that the employee had moved to another number. One of those employees had been gone for at least nine months. The other employee had been gone for at least seven months.
- Two lines could not be identified by state park personnel. The employees were unable to explain why the lines had been in use. One line was located at Harrison Bay State Park and the other was located at Paris Landing State Park.
- One was a line assigned to the Division of Air Pollution Control. A voice mailbox answered and stated that it was full; therefore, no one could leave a message.
- Two were modem lines that were no longer used by the department. The Division of Information Services had received a request to disconnect the numbers effective the week of May 15, 2006 (the week the auditor was obtaining explanations for these lines) and the lines were disconnected at that time.

When the department does not perform detailed reviews of the communication line billings, the risk of paying for invalid lines increases.

### **Recommendation**

The department should review the list of 368 idle phones to determine which ones are valid and disconnect unnecessary lines. This review should be documented and kept for inspection on future audits. Furthermore, the department should create a process to ensure that unused communication numbers are disconnected promptly. The Commissioner should ensure the policy is communicated to all affected employees and should monitor the process for effectiveness.

Management should continue to evaluate risks and include them in their documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

### **Management's Comment**

We concur. The department has received the list of 368 idle phones mentioned in the finding. A review will be conducted and documented for future audits.

The department is currently communicating to all divisions the importance of disconnecting unused phone lines. The Information System Division routinely sends out reminders to all divisions and State Parks to review their telephone billing for unused phone lines. Furthermore, as part of our compliance with F&A's Policy 17 (Long Distance and Cellular Phone Calls) requirement, an annual review is conducted by each division to assess its effectiveness in monitoring phone calls.

---

### **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 16 - *EMPLOYEE HOUSING AND MEALS***

The department has many employees working at parks around the state who need to live at or near the park to be able to respond to emergencies. If possible, the department places the employees in state-owned housing within the park. If this is not possible, the employees are asked to live as close as possible to the park and are paid a housing allowance.

The Department of Finance and Administration (F&A) issued Policy 16 on January 30, 1998, to establish guidelines which ensure compliance with applicable state and federal laws,

particularly Internal Revenue Code requirements, governing all housing and meals provided to all officials and employees and to provide a uniform policy addressing all state-owned housing.

Because of the number of employees at the department who are subject to the requirements of this policy, we performed testwork on the department's compliance with this policy.

Our objectives were to determine whether

- the department had procedures in place which ensured that F&A Policy 16 was followed;
- employees receiving housing allowances were also living in state-owned housing;
- employees receiving housing allowances satisfied the necessary prerequisites; and
- employees living in state-owned housing had completed all of the required forms.

To accomplish these objectives, we reviewed the policy to gain an understanding of its requirements. We interviewed departmental personnel to gain an understanding of the procedures they used to ensure compliance with the requirements of this policy. We obtained copies of the department's procedures and housing plans issued during the period May 2004 through March 2006. We obtained a listing from the State Employee Information System (SEIS) of all employees who had received a housing allowance during the period May 1, 2004, through November 30, 2005, and compared it to a list obtained from the department of employees who were assigned state-owned housing during this period to determine if any employees were receiving both benefits. We tested a nonstatistical sample of employees who received a housing allowance to determine if their job duties and circumstances met the necessary prerequisites. We reviewed a nonstatistical sample of employees living in state-owned housing to determine if the forms required by Policy 16 were on file.

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

- the department did have procedures in place which ensured that F&A Policy 16 was followed;
- employees receiving housing allowances were not living in state-owned housing;
- employees receiving housing allowances satisfied the necessary prerequisites with minor exceptions; and
- employees living in state-owned housing had completed all of the required forms.

---

## **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 objective was to determine whether the department's June 30, 2007; June 30, 2006; June 30, 2005; and June 30, 2004, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2007; June 30, 2006; June 30, 2005; and June 30, 2004, responsibility letters submitted to the Comptroller of the Treasury and the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters for June 30, 2007; June 30, 2006; and June 30, 2004, were submitted on time. The June 30, 2005, letter was submitted two days late.

---

## **OBSERVATIONS AND COMMENTS**

---

### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

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

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

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

---

## **FRAUD CONSIDERATIONS**

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

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

---

## **AUDIT COMMITTEES**

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;

3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;
5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

The board of the West Tennessee River Basin Authority appointed a four-member audit committee on July 12, 2006, and the audit committee charter was approved by the Comptroller of the Treasury on October 6, 2006. The board of the Tennessee Historical Commission appointed a three-member audit committee on June 16, 2006, and the audit committee charter was approved by the Comptroller of the Treasury on October 23, 2006.

---

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

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. (Changed to October 1 each year, effective 2007.) The Department of Environment and Conservation filed its compliance reports and implementation plans on June 23, 2006; June 30, 2005; and June 30, 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 Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.

---

## APPENDICES

---

### MANAGEMENT'S COMMENTS FROM PRIOR AUDITS

#### FINDING 2

**Top management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts and as a result the risks of fraud, waste, abuse, and misappropriation of state funds is increased**

The audit report released in December 1996 also indicated a problem with cash receipts at the state parks. In response to this finding, management concurred and replied:

We concur. Park managers at all state parks will implement procedures to strengthen control over cash receipts and monitor compliance with their procedures.

The audit report released in February 1999 likewise found controls over cash receipts to be deficient. Management responded as follows:

We concur. Chapters 2 and 44 of the department's *Fiscal Procedures Manual* address all phases of cash receipts and vending machine operation. Management will remind park personnel of those policies and stress the requirement to follow those policies. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures. Management will evaluate and limit access to the safe containing cash receipts to only those employees whose access is critical to their job function.

A finding on the issue of cash receipts was noted in the audit report released in April 2001. In response to this finding, management concurred and replied:

We concur that during the audit period, cash receipt controls were weak. However, since that time management has reminded all park personnel of Chapters 2 and 44 of the department's *Fiscal Procedures Manual* which address all phases of cash receipts and vending machine operation. Management has stressed to its employees the requirement to follow those policies. Training on proper cash receipt internal controls will continue to be stressed as part of internal audits and as part of daily training provided to the individual parks.

Management is evaluating and limiting access to the safe containing cash receipts to only those employees whose access is critical to their job function. Additionally, steps have been taken to ensure that the combination to the safe is

changed on a periodic basis and knowledge of the combination is strictly limited. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures including physical reviews by members of management.

Furthermore, we believe the installation of the new Hospitality Management System and Point of Sale Systems at the resort parks will strengthen cash receipting procedures at all points of sale at these parks.

This issue also resulted in a finding in the audit released in November 2002. Management responded to this finding as follows:

We concur. During the audit period, management provided training to all park management on proper internal control procedures and stressed the importance of maintaining adequate documentation. However, the department recognizes that such training must be offered continually due to employee turnover and as refreshers to longer-term staff. Furthermore, management recognizes that in some instances park staffing will not allow strict segregation of duties, but other compensating controls will be used to alleviate the lack of staffing, which is not likely to be corrected with the current budget problems facing state parks.

Specifically, management will establish written procedures regarding “no sale” rings, voids, and other cash controls, and in September 2002, management distributed a new tool to assist resort park management in evaluating their internal controls. This new tool is entitled “Internal Controls Self Audit” and will provide a concise review of the controls at the resort operations.

In response to this finding in the audit released in May 2005, management stated:

We concur. The department has decentralized the management structure of Tennessee State Parks. The parks are now managed by four Area Managers who report to the Director of State Park Operations. The addition of the Area Managers and the continued efforts of four Hospitality Services field positions create a management team that will ensure better compliance within Tennessee’s 54 state parks. The department also recognizes that training must be offered continually due to employee turnover and as refreshers to long-term staff. Management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks will create other checks and balances to alleviate the lack of staffing which is not likely to be corrected with the current budget problems facing state parks.

## ALLOTMENT CODES

327.01	Administrative Services
327.03	Recreation Educational Services
327.04	Historical Commission
327.06	Land and Water Conservation Fund
327.08	Archaeology
327.11	Geology
327.12	Tennessee State Parks
327.14	Natural Areas
327.15	Tennessee State Parks Maintenance
327.17	Tennessee Elk River Resource Management
327.18	Maintenance of Historic Sites
327.19	Local Parks Acquisition Fund
327.20	State Lands Acquisition Fund
327.22	State Lands Compensation Fund
327.23	Used Oil Collection Program
327.24	West Tennessee River Basin Authority Maintenance
327.26	West Tennessee River Basin Authority
327.28	Tennessee Dry Cleaners Environmental Response Fund
327.30	Environment Administration
327.31	Air Pollution Control
327.32	Radiological Health
327.33	Clean Water and Drinking Water State Revolving Fund
327.34	Water Pollution Control
327.35	Solid Waste Management
327.36	Department of Energy Environmental Oversight
327.37	Abandoned Lands Program
327.38	Hazardous Waste Remedial Action Fund
327.39	Water Supply
327.40	Groundwater Protection
327.41	Underground Storage Tanks
327.42	Solid Waste Assistance Fund
327.43	Environmental Protection Fund
327.44	Fleming Training Center
327.45	Office of Environmental Assistance
327.50	Tennessee Heritage Conservation Trust Fund
327.51	Conservation Compensation Fund