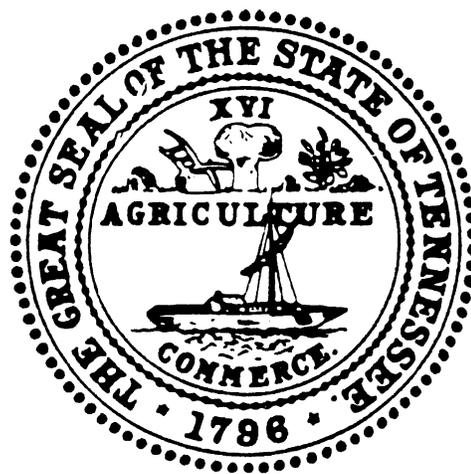


AUDIT REPORT

Tennessee Board of Probation and Parole

June 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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John G. Morgan
Comptroller

June 28, 2007

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

The Honorable Charles M. Traughber, Chairman
Tennessee Board of Probation and Parole
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Probation and Parole for the period March 1, 2003, through June 30, 2006.

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/to
06/072



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COMPTROLLER OF THE TREASURY
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July 14, 2006

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 Tennessee Board of Probation and Parole for the period March 1, 2003, through June 30, 2006.

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 Tennessee Board of Probation and Parole's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Board of Probation and Parole 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 board's management has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the board's internal control and instances of noncompliance to the Tennessee Board of Probation and Parole's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/to

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Board of Probation and Parole
June 2007

AUDIT SCOPE

We have audited the Tennessee Board of Probation and Parole for the period March 1, 2003, through June 30, 2006. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of equipment, fee assessment and collection, information system security, use of payment cards, the Community Corrections Program, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and participating in the negotiation and procurement of services for the state.

AUDIT FINDINGS

The Board Has Not Established Adequate Controls Over Equipment to Ensure the Accuracy of the State's Equipment Records

Management of the Board of Probation and Parole has not ensured that staff has adequately updated the Property of the State of Tennessee (POST) system to reflect accurate equipment information. Eight of 60 equipment items tested could not be located. Of the 52 equipment items located, the information recorded in POST regarding location and/or serial number was incorrect for 15 items, and the cost was incorrect for 7

items purchased during the audit period (page 4).

The Board of Probation and Parole Did Not Always Correctly Assess or Enforce Payment of Fees or Properly Maintain Probationer/Parolee Files*

Management of the Board of Probation and Parole has not always taken the necessary steps to ensure that the probation/parole officers correctly assess or adequately document fees assessed. Also, the probation/parole officers did not always maintain documentation of collection

efforts, employment, and monthly reporting. Two of 65 probationer files selected for fee assessment testwork could not be located (page 8).

The Board Cannot Give Assurances That All Funds Collected Were Properly Accounted For and Has Not Assessed and Mitigated the Risk of Inadequate Security and Controls Over the Receipt of Funds

The board and its management have not established controls and taken adequate steps to protect fees received from offenders under their supervision from fraud or theft. Specifically, staff did not adequately secure funds, did not restrictively endorse money orders or cashier's checks at the earliest opportunity, did not prepare receipt logs or cash receipts for all funds received, did not deposit funds timely, and did not adequately segregate cash receipting duties. In addition, the board and its management have not monitored the cash receipting process which would have identified these weaknesses (page 11).

The Board of Probation and Parole Did Not Follow the State's Policies and Procedures Regarding the Use of Payment Cards by Staff, Which Increases the Risk of Fraudulent Activity

Board staff did not always maintain adequate documentation including cardholder and approver agreements and evidence of cardholder training. In 5 of the 139 payment card transactions tested, at least one item was purchased that did not appear reasonable or necessary for conducting state business. In 6 of the 139 payment card transactions tested, it appears that an employee other than the cardholder made the purchase. In 13 of the 139 payment card transactions tested, at least one of the purchased items on each receipt could have been obtained through Central Stores. Eight of the 139 payment card transactions tested included sales tax in the purchase price. We noted two instances in which a payment card was used to purchase items that were expressly prohibited in the Cardholder Manual. Also, transaction logs were not always properly approved or submitted timely (page 17).

* This finding is repeated from the prior audit.

Financial and Compliance Audit

Tennessee Board of Probation and Parole

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Financial and Compliance Audit Tennessee Board of Probation and Parole

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Board of Probation and Parole. 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

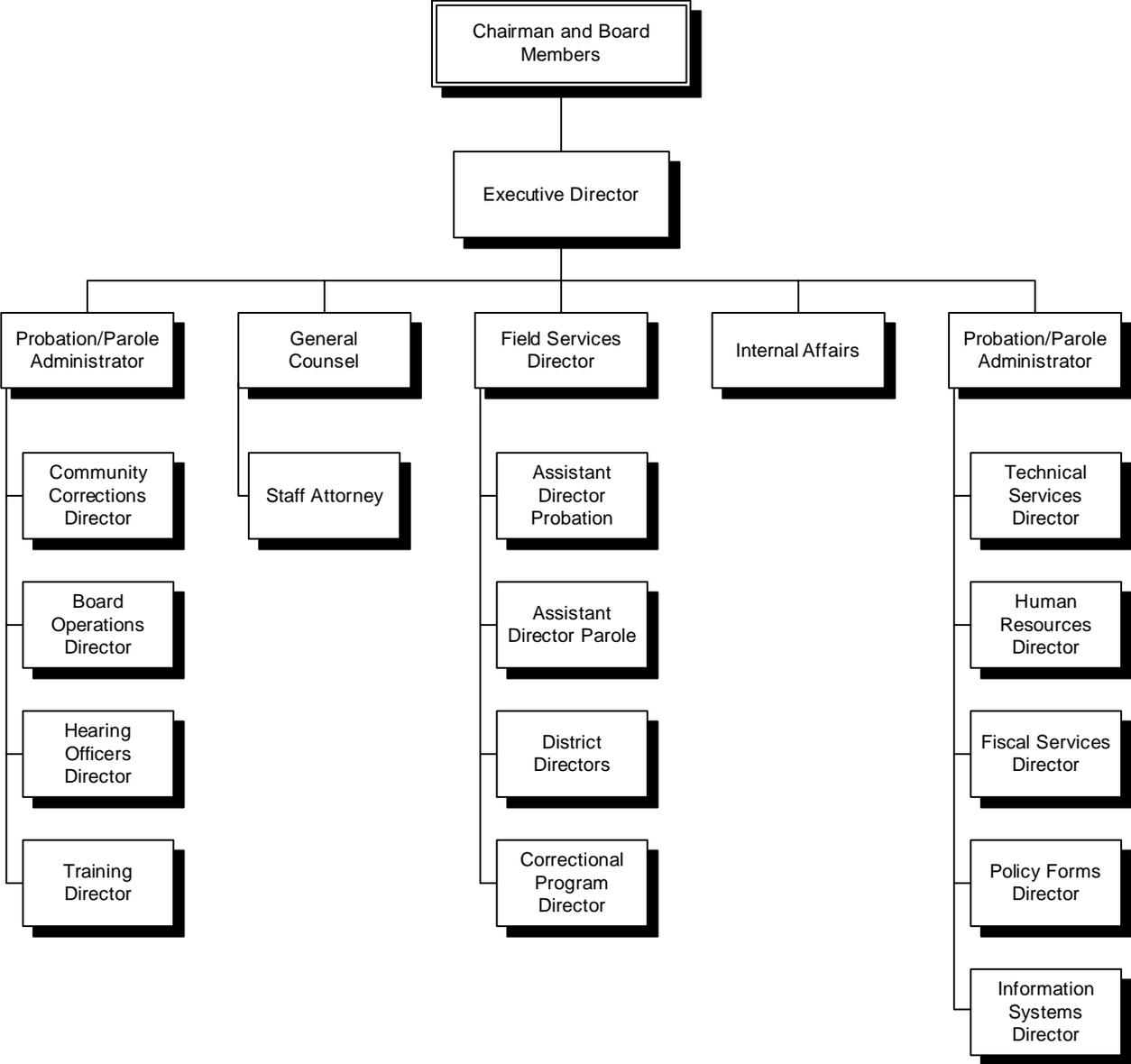
The Tennessee Board of Probation and Parole is an independent state commission composed of seven full-time board members appointed by the Governor. The board is charged with the responsibility for deciding which felony offenders will be granted parole and released from incarceration to community-based supervision. Along with the supervision of those granted parole, the board is also responsible for supervising felony offenders who are placed on probation by criminal courts. The mission of the Tennessee Board of Probation and Parole is “to minimize public risk and promote lawful behavior by the prudent, orderly release and community supervision of adult offenders at the least cost to taxpayers.”

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

AUDIT SCOPE

We have audited the Tennessee Board of Probation and Parole for the period March 1, 2003, through June 30, 2006. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of equipment, fee assessment and collection, information system security, use of payment cards, the Community Corrections Program, and the Financial Integrity Act. The audit was conducted in

Tennessee Board of Probation and Parole Organization Chart



accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and participating in the negotiation and procurement of services for the state.

PRIOR AUDIT FINDING

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 Tennessee Board of Probation and Parole filed its report with the Department of Audit on December 3, 2003. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning the board's failure to enforce payment of assessed fees and properly maintain probationer files. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

The objectives of our review of equipment controls and procedures at the Tennessee Board of Probation and Parole were to determine whether

- policies and procedures regarding equipment were adequate;
- access to the Property of the State of Tennessee (POST) system was appropriate;
- the information on the board's equipment listed in POST was accurate and complete;
- equipment purchased during the audit period was properly recorded in POST;
- equipment was adequately safeguarded; and
- vehicles leased from Motor Vehicle Management (MVM) could be located.

We interviewed key board personnel and reviewed supporting documentation to gain an understanding of the board's equipment procedures and controls. We obtained a listing of those individuals with access to POST as of January 6, 2006. We tested the individuals on the listing

to determine whether they were employees of the board as of the date of the listing, had job duties that required their designated level of access, and whether this level of access created an inadequate segregation of duties. We tested a nonstatistical sample of equipment in POST on March 1, 2006. Equipment items were located or confirmed, and description, tag number, serial number, and location were compared to POST. For the items tested that were purchased during the audit period, the cost recorded in POST was compared to supporting documentation. We observed physical security over equipment at the central office. The vehicles leased from MVM were located or confirmed.

We determined that the board's policies and procedures related to equipment were adequate; however, personnel were not always following those procedures when dealing with the inventorying, theft, and surplus of equipment, as discussed in finding 1. Access to POST was appropriate. We determined that some equipment items could not be located and several equipment items were not properly recorded in POST, as discussed in the finding. Of the items that had been purchased during the audit period, the cost for some of the items was not recorded properly in POST. We determined that physical security over equipment at the central office was adequate. Finally, the vehicles leased from MVM could be located.

1. The board has not established adequate controls over equipment to ensure the accuracy of the state's equipment records

Finding

Management of the Board of Probation and Parole has not ensured that staff has adequately updated the Property of the State of Tennessee (POST) system to reflect accurate equipment information. The board uses POST to maintain information on its equipment, such as descriptions, serial numbers, state tag numbers, locations, acquisition dates and costs, etc. Testwork performed on equipment items during the audit revealed the following weaknesses:

- Eight of 60 equipment items tested (13.3%) could not be located. One of the eight items was supposedly surplus. However, the item, a facsimile machine, was surplus with no state tag number. As a result, the Department of General Services did not remove the item from the POST inventory system. In addition, one of the eight items was stolen in 2004, according to personnel at a district office. An incident report was provided by the district office. However, the central office did not have documentation of this theft, which was never reported to the Comptroller's Office, nor was the item removed from POST. One of the eight items was included in the exception report from the board's 2005 annual inventory. The exception report is generated during the annual inventory and lists items that were not included in the inventory for a particular location even though, according to POST, the items should be in that location. However, there were little or no efforts to locate this item. The Board of Probation and Parole's *Physical Property Inventory Policy*, Section 1.1, Item D, states, "If Central Office has items remaining on the Exception List, a second attempt will be made for the Agency to locate these items." In addition, five of the

eight items had not been included in the board's 2005 annual inventory. One of these items had last been inventoried on June 1, 2004; the second item on March 23, 2004; the third on May 23, 2002; and the fourth, May 17, 2001. One of the items had no inventory date in POST. These items had been missing for at least two years with little or no follow-up by board personnel at the time of testwork.

- Of the 52 equipment items located, the information recorded in POST regarding location and/or serial number was incorrect for 15 items (28.8 %). Thirteen of the 15 items were not in the location specified in POST. In addition, the serial numbers in POST did not agree with the actual equipment item for 4 of the 15 items.
- Additional testwork was performed if the equipment item had been purchased during the audit period. Fourteen of the 60 items included in the testwork had been purchased between March 1, 2003, and February 28, 2006. Of those 14 items, the total cost of 7 (50.0%) was not properly recorded in POST. Each of the seven was a desktop computer with an additional memory upgrade. The cost recorded in POST only reflects the cost of the computer and does not reflect the cost of the upgrade.

Without an adequate inventory process in place with appropriate on-going monitoring of controls, management of the board has not fulfilled its responsibilities to ensure that the state's equipment records are accurate and to report equipment losses to the Comptroller's Office as required. Furthermore, there is an increased risk that theft of the state's equipment will not be prevented or detected timely when proper accountability for equipment is not enforced.

Recommendation

The Executive Director should ensure that the Fiscal Director and the Property Officer follow the board's policies and all instructions from the Department of General Services regarding the completion of the annual inventory process. The Property Officer should follow up any concerns with inventory results and should resolve any issues completely and promptly so that staff can update POST and report missing items to the Comptroller's Office as required.

The board and its management are responsible for assessing and documenting the risk of fraud, waste, and abuse and designing and implementing effective mitigating controls. Property acquired by an agency is vulnerable to fraud, waste, and abuse. The state has implemented statewide controls for all departments and agencies, including the state inventory system (POST) and policies and procedures on adding and deleting items from the system. However, the most important control in any organization is the control environment – the tone at the top. After all, an entity can have lots of available control activities, but unless they are properly utilized, they are of little value. And, if staff realizes that top management does not insist upon compliance with available controls, the control environment is weakened.

Recently promulgated auditing standards include examples of antifraud programs and remind auditors that the lack or inadequacy of such programs may constitute material weaknesses. In other words, the board and its management need to set a tone in which staff are

proactive in preventing fraud, waste, and abuse. The board and its management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and take action if deficiencies occur.

Management's Comment

We concur. The Executive Director will ensure that the Fiscal Director and Property Officer are aware of and follow board policies and Department of General Services' instructions regarding the annual inventory process. During FY05-06, the Board of Probation and Parole (BOPP) began using the Bar Code for Inventory for POST in tagging all appropriate fixed assets, which should assist in maintaining accurate POST records. Additional efforts to ensure proper use of the property transfer form include communication with Information Systems' staff due to the historical issues tracking computer equipment.

The Property Officer will record serial number information for new asset purchases in POST to provide another level of identification for items. The Property Officer will appropriately follow up any concerns with inventory results and property transfer forms and will report to the Comptroller's Office as required. Any BOPP incident reports and/or police reports will be provided to the Comptroller's Office as documentation for applicable items. The Division of Technical Services currently collects and maintains BOPP incident reports. Technical Services' staff will insure that all incident reports are sent immediately to the Property Officer.

Annual training for personnel responsible for the annual property inventory will occur to ensure proper use of barcode technology, transfer forms, surplus disposition, and related property issues.

The Property Officer will stay informed of changes to the POST User Manual, applicable Department of General Services' instructions, and applicable BOPP policies and procedures.

During FY05-06, BOPP hired a Director of Internal Audit, which should help establish a more effective tone of ongoing oversight and compliance with these issues.

FEE ASSESSMENT AND COLLECTION

The Tennessee Board of Probation and Parole supervises and facilitates the reintegration of probationers and parolees into the community. The board also collects fees from eligible probationers and parolees. State statutes require any person placed on probation or parole to contribute up to \$30 per month to the Criminal Injuries Compensation Fund and \$15 per month toward the cost of his or her supervision and rehabilitation, based on ability to pay.

The objectives of our review of the procedures and controls over probation and parole fee assessment and collection were to determine whether

- the probationer/parolee was assessed the appropriate fee and the fee was adequately documented in the case file;
- the probation/parole officer verified employment of the probationer/parolee and documented the verification in the case file, or an exemption form was completed and approved by the officer's supervisor;
- documentation was in the case files to support fee waivers, if applicable;
- appropriate fee collection efforts were made for outstanding fees, if applicable, and documented in the case files;
- monthly reporting forms were properly completed and located in the case files; and
- written documentation of probationer/parolee efforts to obtain a job was in the case files, if applicable.

To accomplish these objectives, we interviewed key board personnel to gain an understanding of the board's procedures and controls over fee assessment and collection. We obtained and reviewed applicable sections of *Tennessee Code Annotated* and the Board of Probation and Parole's *Policies and Procedures Manual*. We also reviewed a nonstatistical sample of probationer/parolee case files.

We determined that fees were not always assessed properly or adequately documented and that verification of employment was not always documented. In addition, written documentation of unemployed probationer/parolee efforts to obtain a job was not always maintained in the case files, when applicable. We also determined that fee waivers were not always adequately documented in the case files. We concluded that fee collection efforts were not always documented for outstanding fees. Monthly reporting forms were not always properly completed and located in the case files. Finally, two probationer case files selected for testwork could not be located by board staff. These problems are discussed in finding 2.

Although not originally included in the audit objectives, the auditors visited three district offices (Clarksville, Knoxville, and Murfreesboro) and six field offices (Clinton, Columbia, Franklin, Gallatin, Lebanon, and Maryville) after receiving conflicting information regarding the procedures surrounding fee collections from the board's central office and the field offices visited for file testwork. During these field office visits, the auditors attempted to determine what procedures were actually being followed by the field offices and district offices visited and to determine if the procedures provided adequate internal control over the receipt of fees. We determined that, not only were the procedures different in all nine offices visited, the procedures used in these offices were not adequate. The problems we noted involved staff not adequately securing funds after receipt, not restrictively endorsing instruments at the earliest opportunity, not preparing receipts or receipt logs for funds received, not depositing funds timely, and not adequately segregating duties. These problems are included in finding 3.

2. The Board of Probation and Parole did not always correctly assess or enforce payment of fees or properly maintain probationer/parolee files

Finding

As noted in the prior audit, management of the Board of Probation and Parole has not always taken the necessary steps to ensure that the probation/parole officers pursue and document collection efforts for probationers/parolees who fail to pay their monthly fees and that board staff properly maintain probationer/parolee files. In response to the prior finding, management stated that “Offender fees are now included as a part of the overall compliance scores for staff standards of supervision compliance” and that these compliance scores would be monitored electronically on a monthly basis and that the officers would be notified when offenders failed to pay their fees so that the officers could initiate collection. To address its failure to properly maintain offender files, a problem specifically noted in the Nashville field offices, management stated that the file room was reorganized and a second storage location was opened. However, we found continuing problems in the current audit.

Our current testwork revealed the following problems:

- The probation/parole officers did not correctly assess or adequately document probation/parole fees assessed in 3 of 63 probationers/parolees files tested (4.8%). Specifically, in these instances, the probation/parole officers either did not completely fill out the Assessment, Notice of Obligation, or Exemption of Fees forms or did not assess the fees in compliance with board policy. Additionally, probation/parole officers did not maintain fee waivers in 7 of 28 probationer/parolee files tested (25.0%). We found the following deficiencies: missing assessment forms, inconsistencies between the paper and electronic files, and unsupported waivers. These deficiencies increase the risk that probation/parole officers may collect fees and keep them inappropriately. The board’s *Offender Fee Manual* requires the officer to document fees assessed and waived by completing the Notice of Obligation to Pay Fees form. Additionally, the manual states that “each hardship will be *documented* [italics in original] and attached to the exemption application.”
- The probation/parole officers did not document any collection efforts for outstanding fees from 2 of 11 probationers/parolees tested (18.2%). Section 40-28-201, *Tennessee Code Annotated*, requires any person placed on probation or parole to contribute up to \$30 per month to the Criminal Injuries Compensation Fund and \$15 per month toward the cost of his or her supervision and rehabilitation, based on ability to pay. In addition, Section 40-28-201, *Tennessee Code Annotated*, states that “in the event of over two (2) months’ arrearage or delinquency in making either or both of such contributions, such arrearage or delinquency shall constitute sufficient ground for revocation of the parole, probation or other release program of the person in arrears.” The board’s fee manual states that “a violation report shall be presented to the court/board for ninety (90) days arrearage before 120 days have elapsed.” Although our testwork revealed that the probation/parole officers had determined that these two probationers/parolees had the ability to pay and were assessed fees, we

could not determine if the officers initiated collection efforts or filed violation reports when the two probationers/parolees missed five monthly fee payments.

- The probation/parole officers did not maintain required employment-related documents or specific case notes in 12 of 38 files tested (31.6%). Additionally, the officers did not document efforts supporting the job searches for three of nine probationers/parolees tested (33.3%). The Board of Probation and Parole's "Standards of Offender Supervision" require that verification of employment be confirmed by contacting the employer or by reviewing a check stub. Also, per the *Offender Fee Manual*, unemployed offenders must regularly submit documentation of registration with the Department of Labor and Workforce Development and provide monthly documentation of their search for employment.
- Probation/parole officers did not maintain properly completed Monthly Reporting Forms. In 4 of 52 offenders' files tested (7.7%), the Monthly Reporting Form for the period tested was missing. Of the 48 forms located, 6 (12.5%) did not include at least one of the two required signatures, and 4 (8.3%) did not include the offenders' Tennessee Offender Management Information System identification number. The board's *Policies and Procedures Manual*, Policy 706.06, paragraph V, requires all officers to complete the standardized monthly activity report and states that "this is to occur monthly and routinely." Policy 706.05, paragraph VI.B., further states, "The purpose of such a report shall be to document information concerning the offender and to aid the Officer in supervising the case." If complete and accurate Monthly Reporting Forms are not obtained and retained, district directors can not ensure that the probation/parole officers have followed the "Standards of Offender Supervision," and the offenders' cases may be managed improperly.
- The Board of Probation and Parole staff could not locate 2 of 65 probationer files selected for fee assessment testwork (3.1%). According to management, these files were prematurely destroyed. These case files have been closed; however, they were active at some point during the audit period. Board policy 706.01, paragraph VI.G., states, "Records of discharged offenders shall be destroyed after a three (3) year period." However, records should not be destroyed until they have been subject to audit by the Comptroller of the Treasury.

The failure to enforce payment of assessed fees and the failure to properly maintain offender files increase the risk that the fees that have been assessed to convicted offenders as part of the offenders' sentence will not be collected or that collected fees have been improperly retained by probation/parole officers. Failure to ensure that all required meetings are held between an offender and the applicable board employee may allow an offender to inappropriately leave the supervision of the board.

Recommendation

The Executive Director, through the State Director of Field Services and the district directors, should ensure that all probation/parole officers follow the board's policies, standards,

and procedures manuals and take the necessary steps to properly assess fees, properly document fee waivers, and document collection efforts as required. The Executive Director, through the State Director of Field Services and the district directors, should also ensure that there is proper supervision over probation/parole officers and that supervisors are regularly reviewing compliance with the “Standards of Offender Supervision” and taking appropriate action. Also, the district directors should ensure that all required documentation is included in offender files to document adequate supervision. The Executive Director, through the State Director of Field Services, should also ensure that all district directors maintain probationer/parolee files until after the audit.

In addition, the board and its management should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in their documented risk-assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management’s Comment

We concur. The Executive Director, through the State Director of Field Services and the District Directors, will ensure that all Probation/Parole Officers are aware of and follow board policies, standards, directives, and procedures manuals. During FY06-07, BOPP began implementing the Offender Fee Accounting System (OFAS) which automates many facets of the fee system and does not allow as many potential officer errors.

The Executive Director, through the State Director of Field Services and the District Directors, will ensure that all Probation/Parole Managers are aware of and follow BOPP policy 706.02, Supervisory Review of Caseloads, which requires specific supervisory actions. BOPP personnel continue to seek to address file storage space issues, which grow as our caseload increases.

The District Directors, in collaboration with the State Director of Field Services, will ensure that Probation/Parole Officers are aware of and follow board policies, standards, directives, and procedure manuals regarding fee collections and maintenance of probationer/parolee files. Appropriate disciplinary action is currently addressed in policy. The Executive Director, through the State Director of Field Services, will ensure that all District Directors maintain probationer/parolee files until after audit.

OFAS interacts with the Tennessee Offender Management Information System (TOMIS) each business day and processes changes (new cases, changed supervision) that have occurred since the last update. The system uses the offender’s case type to automatically assess fees. Officers can only enter a case type in TOMIS, which will assign the appropriate fees to each

offender based on that type. Officers cannot modify (assess, alter or delete) fees generated by OFAS. Entering fee exemptions into OFAS will be the responsibility of Probation/Parole Managers, who will review documentation prior to entry.

OFAS automates fee assessment and also provides additional officer and management information and reporting. Reporting of fee arrearages will allow additional follow-up by officers to offenders. Reporting of exemptions that will be expiring will allow officers to obtain documentation to extend the exemptions or affirmatively end them based on verified information.

BOPP will continue to pursue appropriate action against Probation/Parole Officers, Probation/Parole Managers, and other employees for failure to comply with appropriate state laws, BOPP policies and other applicable rules, regulations and procedures related to fee collections and maintenance of probationer/parolee files.

Again, BOPP hired a Director of Internal Audit, which should assist with developing processes and procedures for appropriate documentation and control of ongoing oversight and compliance with these issues.

3. The board cannot give assurances that all funds collected were properly accounted for and has not assessed and mitigated the risk of inadequate security and controls over the receipt of funds

Finding

The board and its management have not established controls and taken adequate steps to protect fees received from offenders under their supervision from fraud or theft. Specifically, staff did not adequately secure funds, did not restrictively endorse money orders or cashier's checks at the earliest opportunity, did not prepare receipt logs or cash receipts for all funds received, did not deposit funds timely, and did not adequately segregate cash receipting duties. In addition, the board and its management have not monitored the cash receipting process which would have identified these weaknesses.

The Board of Probation and Parole supervises offenders on probation or parole living in the state of Tennessee. Offenders are required to pay various types of fees. These fees may include supervision fees which are used to subsidize the cost of the supervision, payments into the state's Criminal Injuries Compensation (CIC) fund, fines for positive drug-screening tests, an annual fee to register with the Tennessee Bureau of Investigation's Sex Offender Registry (SOR), and monthly fees to help cover the costs of Global Positioning System (GPS) equipment used in the supervision of certain offenders. Certain fees may be waived based on an offender's ability to pay or by court order. During the period under audit, offenders mailed or hand-delivered money orders or cashier's checks to their local reporting location or mailed the payment to the Tennessee Department of Revenue. Supervision and CIC fees received at field and district offices were forwarded to the Department of Revenue or the board's central office for deposit

while all other funds were deposited at the local district offices. Generally, the process of receiving and forwarding or depositing funds at each of the local offices was similar; however, there were variations in the process.

During our audit, we reviewed controls at nine of the 43 local offices (three district offices and six field offices). We found the following problems:

Funds Not Secured

Our testwork revealed that at one district office and five field offices, staff failed to adequately secure funds received. At five of these locations, staff placed money orders and cashier's checks in open wall baskets or desktop file baskets or on employees' desks. At two of these locations, staff kept money orders and cashier's checks in locked containers, but the key to the container was stored in an unsecured location within the office. The unsecured funds stored in these locations were subject to loss or theft by any passing individual. Adequate control procedures require that any negotiable instrument be properly secured from the time of receipt by the state until the point of deposit.

We also found at six locations visited that staff failed to restrictively endorse money orders and cashier's checks before the money orders/cashier's checks were sorted and mailed to the depositing authority. Effective internal control procedures require that all negotiable instruments be restrictively endorsed immediately upon receipt.

Funds Not Recorded

Our testwork also revealed that staff did not log, copy, or record funds received for CIC and supervision fees at any of the local offices visited. Furthermore, staff did not prepare receipts for SOR, GPS, and drug screening fees collected at three of the field offices visited. Staff sorted and forwarded these funds to another location for deposit. Without receipts and other records which document funds received, the board cannot be certain deposits are made, and the risk of fraud or theft increases.

Funds Not Deposited Timely

Funds were received at most local offices on a daily basis; however, local office staff generally reviewed, sorted, and forwarded funds received to its deposit location only one to three times per week. We found that one office reported making deposits as infrequently as once a month. Consequently, staff did not deposit funds as required by the Department of Finance and Administration's Policy 25:

For departments, institutions, offices and agencies, "immediately" means within 24 hours after \$500 has been accumulated or 5 working days if more than \$100 but less than \$500 has been accumulated, provided that the funds to be deposited are secured under lock and key. . . If funds cannot be secured under lock and key, "immediately" means the same day.

Duties Not Segregated

The Executive Director, through the State Director of Field Services and the district directors, has not ensured that cash receipting duties were adequately segregated at one district office and four field offices. One employee at each of these offices was responsible for opening the safe or lockbox (if one was used), reviewing the payment and support to ensure all required information was included, sorting payments into fee types/deposit location, and forwarding the payments and support to the deposit location. In some cases, if money orders or cashier's checks with incomplete payee information were received, staff would personally complete the money order or check. An effective internal control environment requires that more than one employee be present during the processing of receipts to be forwarded.

Central Office

Many of the same weaknesses in internal control that were noted in the district and field offices were also noted in the central office such as:

- Central office staff did not prepare receipt logs or cash receipts for funds received from local offices or individual offenders.
- Staff often left funds unattended on an employee's desk during the workday and used only a minimally secured location to store funds overnight.
- Staff did not restrictively endorse or deposit funds timely. Typically, the central office staff would deposit funds received one day on the following day and restrictively endorse the funds during the preparation of the deposit. Since the funds received at the central office have typically been forwarded from one of the district or field offices, these funds were in state custody from one to five days before they were restrictively endorsed and deposited.
- The Executive Director, through the Administrator of Management Resources and the Fiscal Director, has not ensured that duties are adequately segregated at the central office. One of two clerks is responsible for securing all negotiable instruments when received, posting the receipt of the funds to the fee system, and preparing the deposit.

Without adequate controls over the cash receipting process, management cannot be certain that all funds collected were properly deposited and recorded.

Recommendation

The board and its management should properly assess the risk that funds collected are not properly accounted for and design and implement effective mitigating controls. The board and its management should also ensure the following recommendations are addressed as they design and implement the control environment for the board's new cash receipting and subsidiary ledger system.

Staff should secure funds in a locked, sturdy, enclosed container such as a safe, filing cabinet, or lock box with a slit/hole suitable to insert an envelope containing payment, but not large enough to allow removal of items once released. The container should be located in a populated area of the office to discourage tampering, and all keys should be secured or assigned to specific responsible personnel. Staff should restrictively endorsed money orders and cashier's checks immediately upon receipt. The endorsement stamp should include the name of the department and the account number the funds will be deposited into.

Staff should log or record all funds received as a first step in the receipt processing procedure to provide a basis for reconciling between funds received and funds deposited or forwarded to another location. Design features of the new computerized system should be considered when determining the best method of providing this control feature.

The Executive Director, through the appropriate management and field staff, should ensure that funds are processed daily to comply with state law. Once accumulated receipts have reached \$500, staff should deposit them within 24 hours. With the delay of forwarding receipts to a central location, strict compliance with this law may not be possible; however, every effort should be made to ensure deposits are made in a timely manner.

The Executive Director, through the appropriate management and field staff, should ensure that funds are removed from their secure environment by two employees to provide a witness that funds have remained intact. Because some money orders or cashier's checks are received with no payee recorded on the instrument, these payments are particularly vulnerable to theft. The duties of opening, receipting, and preparing the deposit slip should be performed by employees other than the person responsible for reconciling total receipts to the deposit and the person taking the deposit to the bank.

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

Management's Comment

We concur. During FY05-06, BOPP hired a Director of Internal Audit, which should assist with developing mitigating controls for funds collection. This position can also ensure the design and implementation of an appropriate control environment for BOPP's new cash receipting and subsidiary ledger. The Director of Internal Audit will provide ongoing oversight and auditing for compliance with these issues.

Each BOPP field and district office has a lockbox for depositing offender fee payments located in an accessible, yet populated area of the office. Keys are maintained in secure areas not

generally accessible to the public. BOPP policy requires all offender fee payments be placed in sealed envelopes prior to deposit into the lockbox. Each field office removes lockbox contents each business day and forwards them to their district office. Instruments are restrictively endorsed in the district office prior to further processing.

A mail log, including lockbox receipts, will be maintained at each field and district office location.

The Executive Director, through the appropriate management and field staff, will ensure that funds will be deposited by each district office and/or central office in a timely manner to comply with state law. In offices with insufficient staff to provide for adequate segregation of duties, fee collections should not reach the threshold requiring daily deposits. This is because offices with very few officers will have fewer offenders reporting to that location. Forwarding of funds from field office locations to the district office or from the district office locations to the central office may create the situation of untimely deposits measured from the first receipt into state control. BOPP has determined that segregation of duties related to funds deposit is more important than strict adherence to timely depositing of receipts in office locations where there is insufficient staff to provide for adequate segregation of duties.

The Executive Director, through the appropriate management and field staff, will ensure that lockbox contents will be emptied by two employees subject to personnel staffing levels. Remote field offices may not have adequate staff to accomplish this task, particularly with the field duties of staff, the requirement for daily processing, planned and unplanned staff absences, and other circumstances. BOPP has determined that the cost of additional staffing currently outweighs the benefits of proper segregation of duties related to the amount of fees collected at these locations.

Proper segregation of duties is the practice of BOPP, subject to adequate personnel staffing levels. Duties of employees may be temporarily reassigned to cover short-term planned and unplanned absences.

INFORMATION SYSTEM SECURITY

The board uses the State of Tennessee Accounting and Reporting System (STARS) to account for its financial activities, the Tennessee On-line Purchasing System (TOPS) to handle purchases of goods and services, and the State Employee Information System (SEIS) to record payroll and personnel activity. Our objectives in reviewing this area were to determine whether

- access to these applications was revoked timely when employees were terminated;
- access was limited to those employees whose job duties required it; and
- the level of access created an adequate segregation of duties.

To accomplish these objectives, we interviewed key employees to gain an understanding of internal controls. We obtained from our information systems staff listings of all persons who had access to the Tennessee Board of Probation and Parole's allotment codes in STARS, TOPS, and SEIS and their level of access. We tested all active users who had access to these systems to determine if they were active employees as of the date of the listings, if the level of access was limited to those employees whose job duties required it, and if the level of access created an adequate segregation of duties.

As a result of these interviews and testwork, we concluded the following:

- access to these applications was revoked timely when employees were terminated, with some exceptions;
- access was limited to those employees whose job duties required it; and
- the level of access created an adequate segregation of duties.

PAYMENT CARDS

Our objectives in reviewing controls and procedures over the use of payment cards were to

- document controls over purchases using payment cards;
- determine whether cardholders were current employees of the board, applications were properly approved, and the required agreements were properly completed;
- determine whether payment card purchases appeared reasonable and necessary;
- determine whether payment card purchases were adequately supported, approved, and reconciled to the monthly statements; and
- determine whether payment card purchases complied with the *State of Tennessee Payment Card Cardholder Manual* and the Department of General Services' *Agency Purchasing Procedures Manual*.

We reviewed the applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain and document an understanding of the controls and procedures over payment cards. We tested the listing of active payment card accounts to determine whether cardholders were current employees with properly approved applications and whether the required agreements were properly completed. To determine whether payment card purchases appeared reasonable and necessary and complied with all applicable policies, several nonstatistical samples of payment card transactions made during the period July 20, 2004, to November 21, 2005, were tested. These samples were selected from all payment card transactions, transactions from suspicious vendors, transactions made on a weekend or a state holiday, and transactions with unusual merchant category codes. Each payment card transaction

was also tested for adequate documentation, proper approvals, and reconciliation to the monthly statements.

Based on our interviews, review of supporting documentation, and testwork, we determined that cardholders were current employees of the board; however, the Agency Coordinator did not properly approve one application and did not always maintain properly completed cardholder agreements or approver agreements. We also noted that a terminated employee's payment card was not canceled timely. Certain payment card purchases did not appear to be reasonable and necessary to conduct state business. Other payment card purchases did not comply with the *State of Tennessee Payment Card Cardholder Manual* or the *Agency Purchasing Procedures Manual*. These items are discussed in greater detail in finding 4.

4. The Board of Probation and Parole did not follow the state's policies and procedures regarding the use of payment cards by staff, which increases the risk of fraudulent activity

Finding

The Department of Finance and Administration (F&A) implemented the State Payment Card system in March 2002 to provide departmental personnel an alternative payment method for small purchases. In order to establish the procedures for this program, F&A published the *State of Tennessee Payment Card Cardholder Manual* (Cardholder Manual). This manual was written to complement the State's *Agency Purchasing Procedures Manual* and was not created to replace that manual. The Board of Probation and Parole did not comply with the procedures established in these manuals. Our review of the board's applications and agreements for the 36 individuals with active accounts revealed the following internal control problems:

- The former Agency Coordinator for the payment card program did not ensure that all State Payment Card New Account Application and Maintenance Forms were properly approved. One of the 36 forms tested (2.8%) contained only the signature of the employee who received the card. According to Section 2.1 of the Cardholder Manual, this form "must be completed and signed by the employee, the supervisor, and the division director."
- The current Agency Coordinator was initially unable to provide the required agreements for several cardholders. Cardholder Agreements for 8 of the 36 individuals (22.2%), and Approver Agreements for 7 of the 36 individuals (19.4%) were not initially available for review. According to Section 2.2 of the Cardholder Manual, the cardholder must "Agree to and sign the Cardholder Agreement," and the cardholder's designated approver or supervisor must "Agree to and sign the Approver Agreement." Of these cardholders, three individuals did not actually receive a payment card because they were not able to attend the training sessions required prior to receiving a payment card. However, the accounts for these three individuals were activated as though they had received the cards, and charges could have been made against the account without the actual card. The Agency Coordinator submitted a

request to close the accounts for two of these individuals in May 2006, long after the accounts had been opened. Upon discussing this issue with the Agency Coordinator, she promptly asked the remaining cardholders and the approvers without agreements on file to submit the required forms; the forms were returned in May 2006. However, by this time, the accounts had been active for up to two years with four of the accounts being used, one as early as July 2004. Although our review of the purchases made prior to obtaining the signed agreements found no significant problems, no purchases should ever be made on a state payment card until all required approvals and related documentation have been obtained.

- The current Agency Coordinator was initially unable to provide documentation indicating that 7 of the 36 individuals with active accounts (19.4%) had attended the mandatory Cardholder Training Class. According to Section 2.2 of the Cardholder Manual, the cardholder must attend this training class prior to receiving a State Payment Card. Of these seven accounts, three individuals did not actually receive a payment card because they were not able to attend the initial training session held by the board. However, as noted above, the accounts for these three individuals were activated as though they had received the cards and charges could have been made against the account without the actual card. Upon discussing this issue with the Agency Coordinator, she promptly held training sessions in May 2006 via the telephone with five of the seven individuals. During the phone conversations, the individuals also reviewed the payment card instructions that are available on the state's intranet. However, by this time, the accounts had been active for up to two years with three of the accounts being used, one as early as July 2005. The board has requested that the remaining two accounts be cancelled.
- Even though the board had 36 active accounts at the time of testwork, two additional accounts have been terminated recently. One of these accounts had previously belonged to an employee who transferred to another state department in November 2005. Shortly after the employee's transfer, the Agency Coordinator obtained and destroyed the card and submitted a request for this account to be closed. However, the account was not closed until April 2006, after a subsequent request to F&A. Even though the Agency Coordinator retained the remnants of the card as required by the Cardholder Manual, she did not ensure that the account had been closed by F&A timely. As a result, the account was used in January 2006, two months after the employee's transfer. It appears that the cardholder's supervisor made a purchase via the Internet using the account number after the cardholder no longer had possession of the card and was no longer employed by the board. The purchase was made in this manner since that was the only card number assigned to an individual in that office. The items purchased were appropriate.

In addition to the problems noted above with the cardholders' accounts, the following problems were noted when testing individual payment card purchases:

- In 5 of the 139 payment card transactions tested (3.6%), at least one item was purchased that does not appear reasonable or necessary for conducting state business.

These items were a floral arrangement, a picture frame, lotion, and several items that were to be door prizes at a conference per review of the transaction log and discussions with staff members. The door prizes were a clock radio, a cordless telephone, a weather radio, and a compact disc player. In addition, several calendars were purchased at Franklin Covey, an upscale office supply vendor. While calendars do appear necessary for conducting state business, calendars from this vendor are more expensive than similar items available from Central Stores or a statewide contract. The total cost for all of these items was over \$460.

- In 6 of the 139 payment card transactions selected for testwork (4.3%), it appears that an employee other than the cardholder made the purchase. In these instances, an employee other than the person to whom the card was issued used the payment card to purchase goods. The total of these purchases was \$569.30. The items purchased were appropriate for conducting state business. Section 4.1 of the Cardholder Manual states, “All purchases paid for with the State Payment Card **must** (emphasis in original) be made by the State employee to whom the card was issued.”
- In 13 of the 139 payment card transactions tested (9.4%), at least one of the purchased items on each receipt could have been obtained through Central Stores. These purchases included calendars, batteries, address labels, first aid kits, flashlights, highlighters, a telephone, and copier paper. Three additional purchases (2.2%) contained items that were available through statewide contracts. The items purchased included printers and toner for printers.
- Eight of the 139 payment card transactions selected for testwork (5.8%) included sales tax in the purchase price. The total tax paid unnecessarily on these transactions was almost \$40.
- We noted two instances in which a payment card was used to purchase items that were expressly prohibited in the Cardholder Manual. One purchase was to make two copies of the key for the state van leased from the Motor Vehicle Management Division of the Department of General Services. Section 4.1 of the Cardholder Manual states, “This card is **not** (emphasis in original) to be used for repairs, maintenance, supplies, or any other type charge for any vehicle or equipment belonging to the Department of General Services’ Division of Motor Vehicle Management.” The other purchase was for the publication of brochures. Purchasing printed items with the payment card is not allowable as the *Agency Purchasing Procedures Manual* states that anything printed or published by the state must be approved by the Publications Committee for state agencies. After this purchase was made, the Agency Coordinator did send out a memo to all cardholders reiterating the rule in the *Agency Purchasing Procedures Manual*.

Problems were also noted during a review of the transaction logs associated with the payment card transactions tested. A 31-day cycle ends on or around the 20th of each month. Each individual cardholder is responsible for creating a transaction log when the payment card is used to be reconciled to the card’s monthly statement. As a result, the 139 payment card

transactions corresponded to 83 separate payment card cycles. During our review of the transaction logs, we noted the following problems:

- A transaction log was not completed for one of the 83 payment card cycles tested (1.2%).
- One of the 82 transaction logs tested (1.2%) was not signed by an approver. An additional 18 transaction logs tested (22.0%) were approved by an individual other than the approver of record. When an employee's supervisor changed, a new Approver Agreement was not obtained.
- Thirteen of the 82 transaction logs tested (15.9%) were not submitted to the Central Office in a timely manner. The number of days after the end of the cycle ranged from 53 to 113. Five of the 82 transaction logs tested (6.1%) were not dated. As a result, it was impossible to determine whether the logs were submitted timely. These transactions covered several cycles from July 2004 through May 2005. In September 2005, the Agency Coordinator established additional agency guidelines that included deadlines for the submission of documentation to the Agency Coordinator. We noted no further problems after the implementation of these guidelines.

Based on our testwork of the items noted above, it appeared that while the board's controls over payment card transactions were deficient, the board's purchases were, for the most part, for appropriate business purposes. The risk of fraud or abuse in payment card transactions is inherently high. When established controls are not followed, management and staff cannot ensure that purchases are necessary, authorized, and in compliance with purchasing policies and procedures.

Recommendation

The Executive Director, through the Administrator of Management Resources and the Fiscal Director, should monitor the payment card process to ensure that purchasing and fiscal staff follow established policies and control procedures for payment card transactions. The Agency Coordinator should ensure that all staff adheres to established controls. The board's fiscal and purchasing staff should continue to provide training to all staff responsible for purchasing with payment cards. The Executive Director, through the appropriate management and fiscal staff, should ensure that appropriate disciplinary action as outlined in the Cardholder Manual is taken for employees who fail to follow established guidelines and controls related to the payment card process.

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

Management's Comment

We concur. The Executive Director, through the Administrator of Management Resources and the Fiscal Director, will ensure that all appropriate personnel are aware of, and follow the appropriate policies and control procedures for payment card transactions. The Agency Coordinator will ensure that payment card transactions are reviewed and issues such as improper purchases, imposition of sales tax, and misunderstanding of state purchasing guidelines are brought to the attention of appropriate personnel. The Executive Director, through the appropriate management and fiscal staff, will continue to pursue appropriate action against payment card users for failure to comply with policies and procedures identified in the Cardholder Manual, state purchasing guidelines and BOPP policy, including termination of payment card privileges. Payment card training will be completed prior to issuance of cards. Ongoing training by fiscal and purchasing personnel will occur as needed in a manner that is deemed necessary to ensure proper compliance with payment card processes.

During FY05-06, BOPP hired a Director of Internal Audit, which should assist with developing processes and procedures for appropriate documentation and control of ongoing oversight and compliance with these issues.

The Agency Coordinator will maintain a separate file for each payment cardholder, ensuring that there is a completed cardholder agreement, approver agreement, documentation of attendance at the mandatory Cardholder Training Class, and ongoing historical transaction data.

Ongoing communication between the Agency Coordinator and each cardholder will ensure prompt resolution to issues such as improper purchases, imposition of sales tax, use of the card by personnel other than the cardholder, improperly completed transaction logs, and need for additional training.

The Training Division, in collaboration with the Fiscal Services Division, will provide periodic training to cardholders and approvers to ensure all users have current knowledge of proper rules and procedures related to the payment card program.

Cardholders will notify the Agency Coordinator prior to leaving their position to ensure card accounts are properly closed for terminated or transferred employees. Approvers will notify the Agency Coordinator prior to leaving their position to ensure cardholders obtain a new approver who has been properly trained and has an approver agreement on file. The Agency Coordinator will notify the Department of Finance and Administration to properly close the account.

Documentation of individual transactions and the monthly transaction log will be reviewed by the Agency Coordinator. Discrepancies will be noted on a log maintained by the Agency Coordinator. Appropriate action will be initiated by the Agency Coordinator.

COMMUNITY CORRECTIONS PROGRAM

The Community Corrections Program was created by the Tennessee Community Corrections Act of 1985. The program was established to divert felony offenders from the Tennessee prison system and to provide necessary supervision and services to the offenders with the goal of reducing the probability of continued criminal behavior while maintaining the safety of the community. Our objectives in reviewing this area were to determine whether

- the board has established an effective program to monitor those entities in the Community Corrections Program;
- appropriate revenues related to the Community Corrections Program were properly deposited by the board;
- expenditures charged to the Community Corrections Program were allowable according to grant agreements and complied with the Department of Finance and Administration's (F&A) Policy 3, *Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies*; and
- grant expenditures were appropriately reduced for funds received and retained by the individual Community Corrections Programs.

To accomplish these objectives, we interviewed key employees to gain an understanding of the program and its internal controls. We obtained and reviewed the board's Annual Monitoring Plan. We tested a nonstatistical sample of receipts related to the program for the period March 1, 2003, to April 30, 2006, for proper deposit. We also selected a nonstatistical sample of expenditures charged to the program during the period March 1, 2003, to March 31, 2006. These items were tested for compliance with the applicable grant agreements as well as compliance with F&A Policy 3. These items were also tested to ensure that the expenditures were reduced, when necessary, by funds received and retained by the individual Community Corrections Programs.

As a result of these interviews and testwork, we concluded that the board has established an effective monitoring program for those individual programs within the Community Corrections Program. Revenues were properly deposited by the board. Expenditures charged to the program were allowable according to the applicable grant agreements and complied with F&A Policy 3. Grant expenditures were also reduced, when necessary.

FINANCIAL INTEGRITY ACT

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

evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the board's June 30, 2006; June 30, 2005; June 30, 2004; and June 30, 2003, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the board's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions are being implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the board's procedures. We also reviewed the June 30, 2006; June 30, 2005; June 30, 2004; and June 30, 2003, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We also reviewed the documentation supporting the internal accounting and administrative control report. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective actions for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letters that were due by June 30, 2006; by June 30, 2005; and by June 30, 2003, and internal accounting and administrative control report were submitted on time. However, the Financial Integrity Act responsibility letter that was due by June 30, 2004, was not submitted. Support for the internal accounting and administrative control report was properly maintained, and the procedures used were in compliance with *Tennessee Code Annotated*. Corrective actions are being taken on the weaknesses noted.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Tennessee Board of Probation and Parole filed its compliance reports and implementation plans on June 30, 2003; June 30, 2004; June 30, 2005; and June 29, 2006.

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

APPENDIX

ALLOTMENT CODES

324.00 Board of Probation and Parole
324.02 Probation and Parole Services
324.04 Community Correction