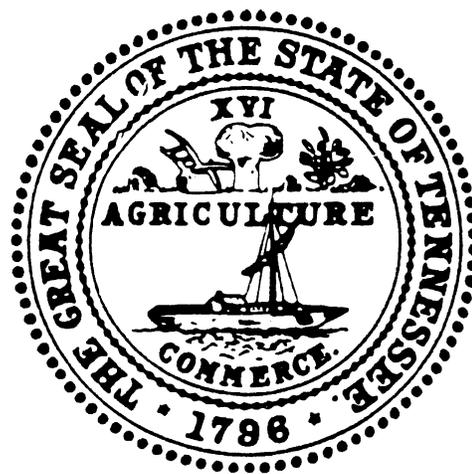


AUDIT REPORT

Tennessee Human Rights Commission

March 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

Kandi Thomas, CPA, CFE
Assistant Director

Scarlet Z. Sneed, CPA, CFE
Audit Manager

Randy A. Salt
In-Charge Auditor

Deborah Jenkins
Chelon Wilson
Staff Auditors
Angelyse Stanford
Intern

Amy Brack
Editor

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

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

John G. Morgan
Comptroller

March 27, 2007

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

The Honorable Amber D. Gooding, Executive Director
Tennessee Human Rights Commission
530 Church Street, Suite 305
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Human Rights Commission for the period June 1, 2003, through April 30, 2006.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
06/086



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

August 18, 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 Human Rights Commission for the period June 1, 2003, through April 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 Human Rights Commission's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Human Rights Commission 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 resulted in no audit findings.

We have reported other less significant matters involving the commission's internal control and instances of noncompliance to the Tennessee Human Rights Commission's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Human Rights Commission
March 2007

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission for the period June 1, 2003, through April 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 revenue, expenditures, payroll and personnel, equipment, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

AUDIT FINDINGS

The audit report contains no findings.

Financial and Compliance Audit Tennessee Human Rights Commission

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Financial and Compliance Audit Tennessee Human Rights Commission

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

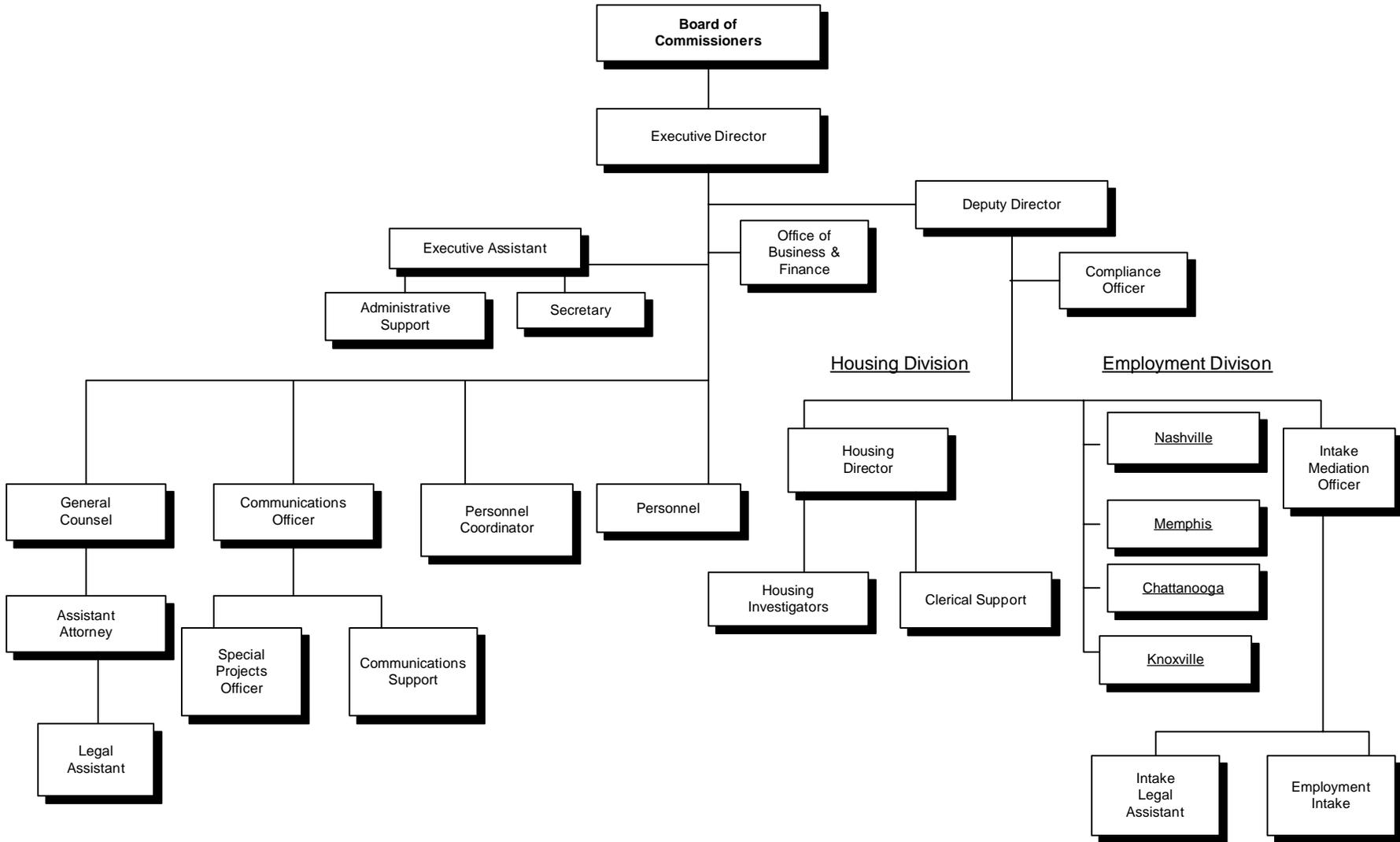
The mission of the Tennessee Human Rights Commission is to promote civil rights in Tennessee. The commission is charged to encourage, promote, and develop fair and equal treatment of, and opportunity for, all Tennesseans regardless of race, color, creed, sex, or national origin; to assist local government agencies with human relations; to report yearly to the Governor and legislature the commission’s activities; and to adopt rules and regulations to govern the proceedings of the commission.

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

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission for the period June 1, 2003, through April 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 revenues, expenditures, payroll and personnel, equipment, 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

Tennessee Human Rights Commission Organization Chart



certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

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 Tennessee Human Rights Commission filed its report with the Department of Audit on October 4, 2004. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Tennessee Human Rights Commission has corrected previous audit findings concerning controls over revenues, controls over purchasing, controls over expenditures, employment and timekeeping practices, and controls over equipment.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

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

- controls and procedures over cash receipts were adequate;
- deposits were made in accordance with Finance and Administration (F&A) Policy 25, "Deposit Practices";
- transactions were properly coded and recorded in the State of Tennessee Accounting and Reporting System (STARS); and
- cash receipt records were reconciled with STARS.

To accomplish our objectives, we interviewed management and performed internal control walkthroughs to gain an understanding of the commission's controls and procedures over cash receipts. We selected a nonstatistical sample of cash receipts for the period June 1, 2003,

through April 30, 2006, to determine if cash receipts were deposited in accordance with F&A Policy 25, "Deposit Practices," and properly coded and recorded in STARS. We also reviewed reconciliations of the commission's cash receipts records with STARS reports to determine if commission records were reconciled with STARS.

As a result of interviews, reviews, and testwork performed, we determined that

- in all material respects, controls and procedures over cash receipts were adequate;
- in all material respects, deposits were made in accordance with Finance and Administration (F&A) Policy 25, "Deposit Practices";
- transactions were properly coded and recorded in STARS; and
- cash receipts records were reconciled to STARS.

EXPENDITURES

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

- controls and procedures over expenditures were adequate;
- access to the State of Tennessee Accounting and Reporting System (STARS) and the Tennessee On-line Purchasing System (TOPS) was properly restricted;
- expenditures were for goods and services that were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements; and
- payments were made in a timely manner.

To accomplish our objectives, we interviewed management to gain an understanding of the commission's controls and procedures over expenditures. We obtained and reviewed a listing of commission employees with access to STARS and TOPS to determine if employees with access to STARS and TOPS were still employed at the time they had access to these systems and whether employees' duties required the level of system access indicated on the listing. We selected a nonstatistical sample of expenditure transactions for the period June 1, 2003, through March 31, 2006, to determine if expenditures for goods and services were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements. We also determined if payments were made in a timely manner.

As a result of interviews, reviews, and testwork performed, we determined that

- in all material respects, controls and procedures over expenditures were adequate;
- access to STARS and TOPS was properly restricted;

- in all material respects, expenditures for goods and services were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements; and
- in all material respects, payments were made in a timely manner.

PAYROLL AND PERSONNEL

The primary objectives of our review of payroll and personnel were to determine whether

- controls and procedures over payroll and personnel were adequate;
- gross pay for newly hired and terminated employees agreed with personnel records and payroll deductions were properly supported;
- employees were qualified for their positions;
- terminated employees did not appear on the succeeding payroll register;
- employee performance evaluations were completed in a timely manner; and
- employees were hired from the appropriate Department of Personnel (DOP) listings.

To accomplish our objectives, we interviewed management to gain an understanding of the commission's controls and procedures over payroll and personnel. We tested and reviewed payroll and personnel records for all employees that were hired or terminated during the period June 1, 2003, through April 30, 2006. These tests and reviews were performed to determine if gross pay for newly hired and terminated employees agreed with personnel records and deductions were properly supported. We reviewed payroll and personnel records to determine if employees were qualified for their positions, terminated employees were not included in the succeeding payroll register, performance evaluations were completed in a timely manner, and employees were hired from the appropriate DOP listings.

As a result of interviews, reviews, and testwork performed, we determined that

- in all material respects, controls and procedures over payroll and personnel were adequate;
- gross pay for newly hired and terminated employees agreed with personnel records and payroll deductions were properly supported;
- employees were qualified for their positions;
- terminated employees did not appear on the succeeding payroll register;
- in all material respects, employee performance evaluations were completed in a timely manner; and
- employees were hired from the appropriate DOP listings.

EQUIPMENT

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

- controls and procedures over equipment were adequate;
- access to the Property of the State of Tennessee (POST) system was properly restricted;
- equipment in the POST inventory listing could be physically located or confirmed, and the description, tag number, serial number, and location in POST were correct;
- equipment located on the premises matched the pertinent information in the POST inventory listing;
- equipment expenditures recorded in the State of Tennessee Accounting and Reporting System (STARS) reconciled with equipment acquisitions recorded in POST;
- physical security over equipment items was adequate; and
- procedures for lost or stolen equipment items were adequate and followed by commission staff, including informing the Comptroller's Office and deleting the equipment from the POST system in a timely manner.

To accomplish our objectives, we interviewed management to gain an understanding of the commission's controls and procedures over equipment. We obtained and reviewed a listing of employees with access to the POST system to determine if the person was an employee as of the date of the listing and if the employee's duties required the level of access indicated on the listing. We tested a nonstatistical sample of equipment items from the POST inventory listing as of April 30, 2006, to determine if equipment from the POST inventory listing could be physically located or confirmed, and the description, tag number, serial number, and location in POST were correct. We also haphazardly selected equipment items located on the premises to determine if pertinent information on the equipment agreed with information in POST. We obtained a listing of equipment expenditures in STARS for the period June 1, 2003, through March 31, 2006, as well as a listing of equipment acquisitions from POST for the period June 1, 2003, through April 30, 2006, to determine if expenditures reported in STARS reconciled with equipment acquisitions recorded in POST. We discussed physical security over equipment with management and observed security conditions at the premises to determine if physical security over equipment was adequate. We interviewed key commission personnel to determine if procedures for lost or stolen equipment were adequate and followed by commission staff.

As a result of interviews, reviews, and testwork performed, we determined that

- in all material respects, controls and procedures over equipment were adequate;
- access to the POST system was adequately restricted;

- equipment identified from the POST inventory listing could be physically located or confirmed, and, in all material respects, the description, tag number, serial number, and location of equipment recorded in POST was correct;
- in all material respects, information on equipment items located on the premises matched the pertinent information in the POST inventory listing;
- in all material respects, equipment expenditures recorded in the State of Tennessee Accounting and Reporting System (STARS) reconciled with equipment acquisitions recorded in POST;
- physical security over equipment was adequate; and
- procedures for lost or stolen equipment items were adequate and followed by commission staff, including informing the Comptroller's Office and deleting the equipment from the POST system in a timely manner.

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 commission's June 30, 2006; June 30, 2005; and June 30, 2004, 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 commission'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 have been 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 commission's procedures. We also reviewed the June 30, 2006; June 30, 2005; and June 30, 2004, 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. Based on review of the internal accounting and administrative controls report, no weaknesses were identified by management in the report.

We determined that the June 30, 2004, Financial Integrity Act responsibility letter was not submitted to the Comptroller of the Treasury or the Department of Finance and Administration. We determined that the June 30, 2005, Financial Integrity Act responsibility letter was submitted two months late on August 30, 2005. We determined that support for the internal accounting and administrative control report was properly maintained and procedures used to compile the report were in compliance with *Tennessee Code Annotated*.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." The 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 the audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessments and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

Prior to the inception of fieldwork, the Tennessee Human Rights Commission had an established budget and audit committee. In response to the “State of Tennessee Audit Committee Act of 2005,” the Tennessee Human Rights Commission prepared an audit committee charter which was approved by the Board of Commissioners on June 23, 2006. The audit committee charter was approved by the Comptroller of the Treasury on July 17, 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. The Tennessee Human Rights Commission filed its compliance reports and implementation plans on June 30, 2004; July 26, 2005; and June 30, 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

The Tennessee Human Rights Commission allotment code is 316.04.