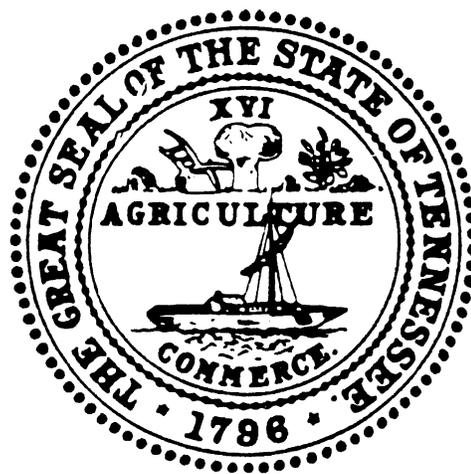


AUDIT REPORT

Tennessee Corrections Institute

August 2006



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

August 17, 2006

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Bruce Mallard, Board Chair
Tennessee Corrections Institute
P.O. Box 9514
Nashville, Tennessee 37209
and
Mr. Jerry Abston, Executive Director
Tennessee Corrections Institute
Eighth Floor, Andrew Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Corrections Institute for the period February 1, 2003, through May 31, 2006.

The review of internal control and compliance with laws and regulations resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
06/099



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

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June 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 Corrections Institute for the period February 1, 2003, through May 31, 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 institute's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the institute 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 institute's internal control and instances of noncompliance to the institute's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Corrections Institute
August 2006

AUDIT SCOPE

We have audited the Tennessee Corrections Institute for the period February 1, 2003, through May 31, 2006. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of expenditures, equipment, computer security, inspection of local correctional facilities, 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 Corrections Institute

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Financial and Compliance Audit Tennessee Corrections Institute

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Corrections Institute. 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

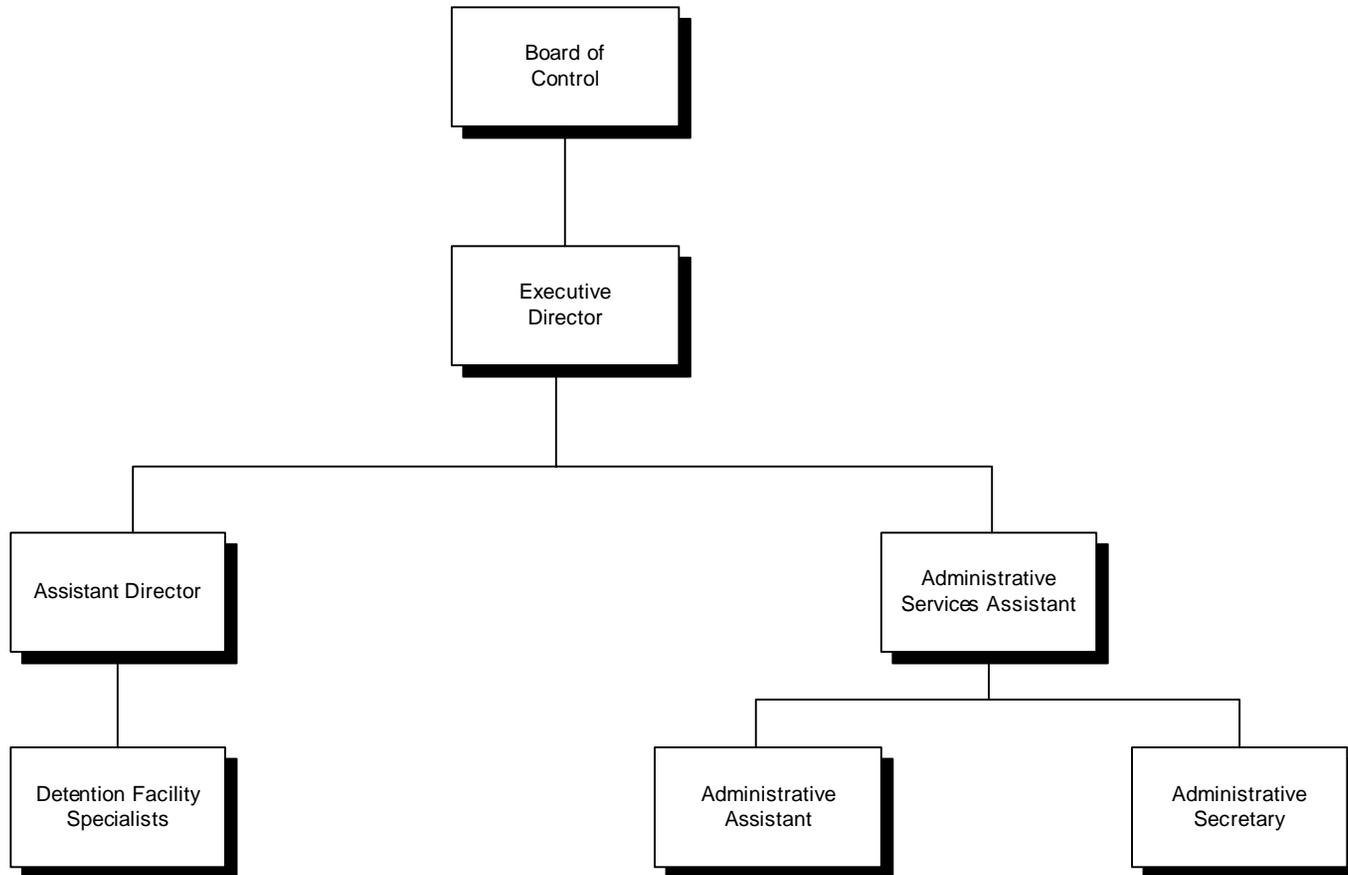
The Tennessee Corrections Institute provides support services for local penal systems in Tennessee. The institute educates local correctional staff in areas such as legal issues, report writing, communications, and security measures. The institute also establishes standards that it uses to inspect and certify local adult correctional facilities in areas such as physical environment, medical services, and inmate supervision. The institute also responds to requests for technical assistance from correctional facilities and governmental agencies.

An organization chart of the Tennessee Corrections Institute is on the following page.

AUDIT SCOPE

We have audited the Tennessee Corrections Institute for the period February 1, 2003, through May 31, 2006. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of expenditures, equipment, computer security, inspection of local correctional facilities, 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

TENNESSEE CORRECTIONS INSTITUTE ORGANIZATION CHART



procurement of services for the state; and providing support staff to various legislative committees and commissions.

The Tennessee Corrections Institute is accounted for in allotment code 316.09.

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 Corrections Institute filed its report with the Department of Audit on December 1, 2003. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the Tennessee Corrections Institute has corrected previous audit findings concerning weak controls over equipment and local correctional facilities not being inspected in accordance with state statutes.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

Our objectives for reviewing expenditure controls and procedures were to determine whether

- policies and procedures regarding expenditures were adequate;
- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting records;
- payments to vendors were made promptly;
- institute records were reconciled with reports from the state's accounting system; and
- expenditures were in compliance with applicable state regulations.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over expenditures and to determine whether institute records were reconciled with reports from the state's accounting system. We also tested a nonstatistical sample of expenditures for the period February 1, 2003, through April 30, 2006, to determine whether recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting records;

payments to vendors were made promptly; and expenditures were in compliance with applicable state regulations.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding expenditures were adequate and that institute records were reconciled with reports from the state's accounting system. Based on our testwork, we determined that recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting records; payments to vendors were made promptly; and expenditures were in compliance with applicable state regulations.

EQUIPMENT

Our objectives for reviewing equipment controls and procedures were to determine whether

- policies and procedures regarding equipment were adequate;
- equipment was properly accounted for in the Property of the State of Tennessee (POST) system;
- equipment purchases were correctly added to POST;
- the assignment of equipment to authorized personnel was properly documented; and
- vehicles being leased by the institute could be located, mileage logs were maintained, and the vehicles were being used for business purposes.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over equipment. We physically located or confirmed all equipment items and determined whether the items had been properly accounted for in POST. We traced information from the invoices of all equipment purchased during the audit period to POST to determine whether equipment purchases had been correctly added. We reviewed the institute's property records to determine whether assignment of equipment was properly documented. A listing of vehicles being leased from the Department of General Services was obtained. We physically located all the vehicles currently being leased. We reviewed the vehicle log books to ensure that a record of mileage was maintained and to determine if the vehicle was being used for business purposes.

Based on interviews, reviews of supporting documentation, and testwork, we determined that control policies and procedures were adequate. We determined that the institute's equipment had been properly accounted for in POST and that equipment purchased by the institute had been correctly added to POST with only minor exceptions. We determined that the assignment of equipment to authorized personnel was properly documented. We located all leased vehicles and determined that mileage logs were being maintained and that the leased vehicles appeared to be used for business purposes.

COMPUTER SECURITY

Our objectives for reviewing computer system security controls and procedures were to determine whether the system access granted to institute employees was appropriately documented, was approved, and appeared reasonable based on the types of duties the employees performed.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's procedures and controls over computer system security. We obtained listings of all persons with access to the State of Tennessee Accounting and Reporting System (STARS), the Property of the State of Tennessee (POST) system, the Tennessee On-line Purchasing System (TOPS), and the State Employee Information System (SEIS). We reviewed documentation authorizing these employees to access the systems and compared the employees' level of access to the employees' job descriptions.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the system access granted to institute employees was appropriately documented, was approved, and appeared reasonable based on the types of duties the employees performed.

INSPECTION OF LOCAL CORRECTIONAL FACILITIES

Our objectives for reviewing the controls and procedures over inspections of local correctional facilities were to determine whether

- institute policies and procedures for the inspection of local correctional facilities complied with Section 41-4-140, *Tennessee Code Annotated*; and
- local correctional facilities were inspected as required by Section 41-4-140, *Tennessee Code Annotated*.

We interviewed key institute personnel and reviewed supporting documentation to gain an understanding of the institute's policies, procedures, and controls over the inspection of local correctional facilities. We reviewed the most current inspection logs and tested a nonstatistical sample of reports for inspections completed during the period February 1, 2003, through May 31, 2006.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that the institute's policies and procedures for the inspection of local correctional facilities complied with Section 41-4-140, *Tennessee Code Annotated*. We also determined that local correctional facilities had been inspected in accordance with Section 41-4-140, *Tennessee Code Annotated*.

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 Tennessee Corrections Institute's 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 institute'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
- if applicable, 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 institute's procedures. We reviewed the 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 supporting documentation for the institute's evaluation of its internal accounting and administrative control.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. No weaknesses were identified in the report.

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." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;
5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

Subsequent to the completion of fieldwork, the Board of Control of the Tennessee Corrections Institute began the process of establishing an audit committee.