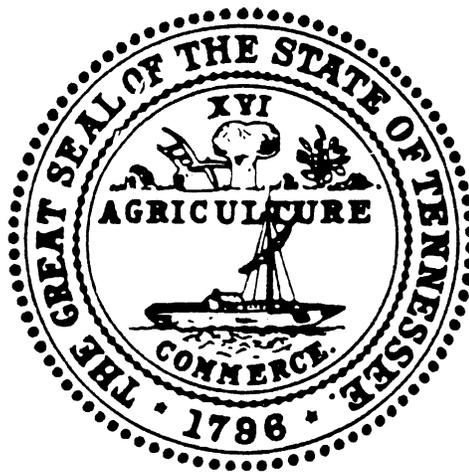


AUDIT REPORT

Tennessee Bureau of Investigation

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
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

June 19, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Mark Gwyn, Director
Tennessee Bureau of Investigation
901 R. S. Gass Boulevard
Nashville, Tennessee 37216

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Bureau of Investigation for the period April 1, 2004, through March 31, 2007.

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/to
07/049



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COMPTROLLER OF THE TREASURY
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April 6, 2007

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Bureau of Investigation for the period April 1, 2004, through March 31, 2007.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Tennessee Bureau of Investigation's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Bureau of Investigation 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 bureau's internal control and instances of noncompliance to the Tennessee Bureau of Investigation'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 Bureau of Investigation
June 2007

AUDIT SCOPE

We have audited the Tennessee Bureau of Investigation for the period April 1, 2004, through March 31, 2007. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of confidential bank accounts and show money, revenues, expenditures, equipment and confiscated property, payment cards, Information Systems, the Uniform Crime Report, 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 audit report contains no findings.

Financial and Compliance Audit Tennessee Bureau of Investigation

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Financial and Compliance Audit Tennessee Bureau of Investigation

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Bureau of Investigation. 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 statement of the Tennessee Bureau of Investigation (TBI) is “That guilt shall not escape, nor innocence suffer.” In order to fulfill this mission, the bureau has five major divisions: Criminal Investigation, Forensic Services, Drug Investigation, Information Systems, and Administrative Services.

The Criminal Investigation Division is responsible for providing professional expertise in the investigation of crimes and criminal activity and for responding to emergencies and unusual events or incidents. The Criminal Investigation Division is organized into four units: the Field Investigation Unit, the Criminal Intelligence Unit, the Technical Services Unit, and the Medicaid Fraud Control Unit.

The Forensic Services Division is responsible for maintaining up-to-date forensic laboratories for processing and analyzing biological, chemical, and physical evidence in criminal cases. The Forensic Services Division comprises a central laboratory in Nashville and two regional laboratories in Memphis and Knoxville.

The Drug Investigation Division is responsible for investigating, gathering evidence, and assisting in the prosecution of criminal offenses involving controlled substances, narcotics, and other drugs. The Drug Investigation Division is organized into four units in East Tennessee, Middle Tennessee, West Tennessee, and Upper East Tennessee.

The Information Systems Division consists of the Identification Services Section and the Computer Services Section and has the responsibility to oversee crime information functions of the TBI and the entire Tennessee criminal justice community. The Tennessee Bureau of Investigation received National Incident Based Reporting System (NIBRS) certification on June 30, 1998, from the Federal Bureau of Investigation.

The Administrative Services Division is responsible for providing technical and administrative support to all areas of the TBI. The Administrative Services Division is divided into the Fiscal Office, Personnel Office, Public Information Office, Executive Office, Professional Standards Unit, and Internal Audit Office.

On November 18, 2006, the Tennessee Bureau of Investigation received its reaccreditation by the Commission on Accreditation for Law Enforcement Agencies, Inc.

An organization chart of the Tennessee Bureau of Investigation is on the following page.

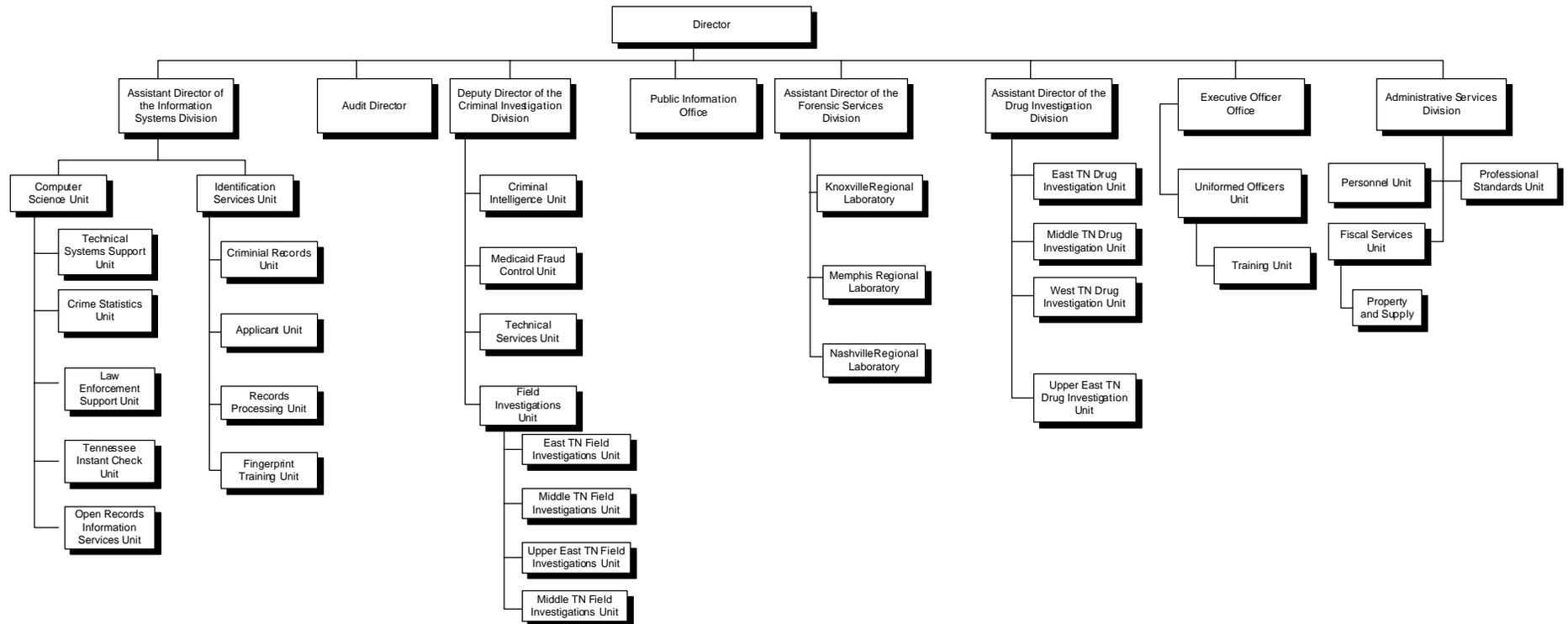
AUDIT SCOPE

We have audited the Tennessee Bureau of Investigation for the period April 1, 2004, through March 31, 2007. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of confidential bank accounts and show money, revenues, expenditures, equipment and confiscated property, payment cards, Information Systems, the Uniform Crime Report, 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

Tennessee Bureau of Investigation Organization Chart



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CONFIDENTIAL BANK ACCOUNTS AND SHOW MONEY

The Tennessee Bureau of Investigation has confidential bank accounts which are used during undercover operations. These funds may be used to make payments to confidential informants or to pay other authorized expenditures while undercover. Show money refers to cash that is displayed during undercover operations. Show money does not actually leave the possession of a special agent.

The objectives of our review of the confidential bank accounts and show money controls and procedures were to determine whether

- the controls over the confidential bank accounts and the issuance of show money were adequate;
- the bureau complied with the Department of Finance and Administration's (F&A's) policies and procedures for the confidential bank accounts and for show money transactions;
- duties assigned to employees managing the bank accounts were properly segregated and related controls were appropriate;
- confidential bank account disbursements were for allowable purposes, were properly approved, and were handled appropriately;
- bank reconciliations were prepared properly and with sufficient detail; and
- payments made by the state to reimburse the confidential bank accounts were proper.

To determine whether controls over the confidential bank accounts and the issuance of show money were adequate, we first discussed with TBI officials the purpose and nature of the confidential bank account and the duties and responsibilities involved. We also discussed the controls surrounding these accounts and the transactions within those accounts and reviewed bank statements to determine if the account balance at any time during the audit period exceeded the authorized amount. We reviewed the applicable policies and procedures. We also obtained from management a list of persons authorized to sign checks and make withdrawals to help determine if adequate segregation of duties existed. To determine that confidential bank account disbursements were appropriately handled, we reviewed the checkbooks and receipt books (in the cases of payments to confidential informants) for the period April 1, 2004, through December 31, 2006. We investigated any missing checks or receipts and determined if the checkbooks and receipt books were used in numerical order. In addition, we selected a nonstatistical sample of expenditures made from the confidential fund account to determine if the expenditures were for allowable purposes and were properly approved.

In order to determine if the bank reconciliations were prepared properly, we obtained all bank statements and reconciliations for the period April 1, 2004, through December 31, 2006, to determine if the reconciliations included a detailed listing of outstanding checks and deposits. In order to determine if payments made by the state to reimburse the account were proper, we compared the bank deposits to the listing of all payments made by the state to reimburse the confidential funds account.

We discussed with management the control procedures over the issuance of “show money” to determine if these procedures were in accordance with F&A’s policies and procedures. We obtained a listing of all “show money” transactions for the period April 1, 2004, through December 31, 2006, and tested each to determine if the transaction was in compliance with the Department of Finance and Administration’s policies and procedures for show money transactions.

We concluded as a result of this testwork that the controls over the confidential bank account and the issuance of show money were adequate, and the bureau complied with F&A policies and procedures. Segregation of duties and related controls were appropriate. Also, confidential bank account disbursements were for allowable purposes, were properly approved, and were handled appropriately. Bank reconciliations were prepared properly and with sufficient detail. Reimbursements made to the confidential bank accounts were handled properly.

REVENUE

The objectives of our review of revenue controls and procedures were to determine whether

- management controls over cash receipts and accounts receivable were adequate and duties involved in the processing of cash receipts and accounts receivable were adequately segregated;
- revenue transactions were properly approved, recorded, and reconciled in the accounting system; and
- revenue transactions complied with applicable state laws and regulations.

We discussed with management the internal controls that were in place regarding cash receipts and accounts receivable to obtain an understanding of the bureau’s controls and procedures including segregation of duties for these functions. We selected a nonstatistical sample of revenue transactions for the period April 1, 2004, through December 31, 2006, to determine whether revenue transactions were properly approved, recorded, and reconciled and to determine whether the revenue transactions were in compliance with applicable state laws and regulations.

As a result of this testwork, we concluded that management controls including segregation of duties over cash receipts and accounts receivable were adequate. We also

determined that revenue transactions were properly approved, recorded, and reconciled in the accounting system, and that management complied in all material respects with the applicable state laws and regulations.

EXPENDITURES

The objectives of our review of expenditures controls and procedures were to determine whether

- management controls over expenditures and accounts payable were adequate and duties involved in the processing of expenditures and accounts payable were adequately segregated;
- expenditures were properly supported, recorded, and approved; and
- expenditures complied with applicable state laws and regulations.

We interviewed key personnel to gain an understanding of management controls and the duties involved with processing accounts payable and expenditures. To determine whether expenditures were properly supported, recorded, approved, and that expenditures complied with applicable state laws and regulations, we selected and tested a nonstatistical sample from the population of expenditures charged to professional and administrative services, supplies, and rentals for the period April 1, 2004, through December 30, 2006.

Based on our review and testwork, we found that management controls over expenditures and accounts payable were appropriate and duties involved in the processing of expenditures and accounts payable were adequately segregated. Expenditures were properly supported, recorded, and approved, and the transactions complied with applicable laws and regulations.

EQUIPMENT AND CONFISCATED PROPERTY

The objectives of our review of equipment controls and procedures were to determine whether

- controls over bureau property and confiscated property were adequate;
- confiscated money and property were properly safeguarded and inventoried;
- the total cost of capitalized equipment shown in the Property of the State of Tennessee (POST) that was acquired during the audit period reconciled to the total equipment expenditures reported in the State of Tennessee Accounting and Reporting System (STARS);
- the information in POST for bureau equipment was accurate; and
- access to POST was proper.

We interviewed key personnel to gain an understanding of the controls over bureau property and confiscated property. We reviewed with management the procedures used to safeguard and inventory confiscated money and property. We reviewed the location of confiscated money and property to determine whether this property was adequately safeguarded and inventoried. In addition, we obtained a listing of all confiscated property stored at TBI as of February 28, 2007. From this listing, we selected a nonstatistical sample of items (both confiscated property and cash that had been seized by the bureau) and attempted to find the items to verify that the information about the items was accurate and that the items were properly safeguarded and inventoried.

We scheduled all capitalized equipment items in POST that were acquired during the period April 1, 2004, through December 31, 2006, and we totaled the cost of the items. We obtained a listing of all STARS expenditures charged to equipment during April 1, 2004, through December 31, 2006, and reconciled this total to the total cost of equipment in POST. We also obtained from the Department of General Services a listing as of January 23, 2007, of all equipment assigned to the bureau and selected the 10 most expensive pieces of equipment and 15 additional items to test. For each sample item, we confirmed the location of the equipment, confirmed that a state tag was on the equipment, and verified the accuracy of the information in POST including the location code, serial number, tag number, and cost. We also obtained a listing of employees with access to POST to determine if access was proper.

As a result of this testwork, we concluded that controls over bureau property and confiscated property were adequate, and confiscated money and property were properly safeguarded and inventoried. We also determined that the total cost of capitalized equipment shown in POST acquired during the audit period reconciled to total equipment expenditures as reported in STARS. We also found that information recorded in POST for bureau equipment was accurate with minor exceptions and access to POST was proper.

PAYMENT CARDS

Our objectives in reviewing payment cards were to determine whether

- relevant policies and procedures had been placed in operation and management controls regarding payment cards were adequate;
- payment card users were properly approved;
- payment card purchases were adequately supported by receipts, approved, and reconciled to the monthly bank statement;
- payment card purchases were necessary for conducting state business and complied with Department of General Services purchasing policies and procedures; and
- payment card transactions made on weekends, holidays, or in excess of the single-purchase limit were appropriate.

We interviewed key personnel and performed testwork to determine whether relevant policies and procedures had been placed in operation and management controls regarding payment cards were adequate. We also selected a sample of payment card users to determine if they had been properly approved. We tested a nonstatistical sample of payment card transactions made from April 1, 2004, through December 31, 2006, to determine if payment card purchases were supported by receipts, approved, reconciled to the monthly bank statements, and necessary for conducting state business, and that they complied with the Department of General Services' purchasing policies and procedures. Payment card transactions made on the weekends and holidays and payment card purchases greater than the single-purchase limit from the same vendor on the same day were reviewed for propriety.

As a result of the interviews and testwork performed, we determined that relevant policies and procedures had been placed into operation and management controls were adequate. Payment card users were properly approved. We also determined that payment card purchases were adequately supported by receipts, approved, and reconciled to monthly bank statement. Payment card transactions were necessary for conducting state business and complied with the Department of General Services' purchasing policies and procedures with minor exceptions. Payment card purchases made on weekends and holidays and payment card purchases greater than the single-purchase limit were appropriate.

INFORMATION SYSTEMS

The objectives of our review of information system controls and procedures were to determine whether

- controls over the use of and access to the bureau's computer systems were adequate;
- the bureau's business disaster recovery plan was sufficiently detailed; and
- off-site backup procedures were in place.

We discussed with management the general computer controls that were in place. In order to better observe the general computer controls in place, we reviewed the Information Systems Management (ISM) group's three-year plan to identify proposed modifications to existing applications or equipment and any new systems under development, and we determined that the Management Advisory Committee (MAC) met regularly during the audit period. To review employees' access, we obtained a list of employees authorized to access various computer applications to determine if each employee was still employed by the bureau, if the employee's duties required the level of access given, and if the employee's level of access did not create an inadequate segregation of duties. In addition, we reviewed the bureau's current business recovery plan for sufficient details and observed off-site backup procedures.

As a result of this testwork, we concluded that controls over the use of and access to the bureau's computer systems were adequate. We also determined that the bureau's business disaster recovery plan was sufficiently detailed, and off-site backup procedures were in place.

UNIFORM CRIME REPORT

In accordance with Section 38-10-104, *Tennessee Code Annotated*, the bureau is required to prepare an annual report of crime statistics for the Governor and the legislature and to make this information available to all law enforcement, judicial, and criminal justice agencies. The bureau compiles this information from reports submitted from sheriffs' departments, drug task forces, college and university campuses, and various state agencies. Over 450 law enforcement agencies and 80 colleges and universities report incidents within their jurisdictions to the bureau. The bureau relies on the law enforcement agencies to submit this information timely and is responsible for following up with any jurisdiction that fails to submit the incident reports as needed.

The objectives of our review of the Uniform Crime Report controls and procedures were to determine whether

- management controls were adequate to ensure compliance with the related laws and regulations; and
- the bureau complied with applicable laws and regulations.

In order to determine whether the bureau complied with applicable laws and regulations, we first reviewed Section 38-10-104, *Tennessee Code Annotated*, to gain an understanding of the requirements regarding the Uniform Crime Report. We then discussed with management the controls and procedures in place to ensure compliance. We also discussed with management the procedures used to compile the annual report and determined the adequacy of the procedures. We reviewed a nonstatistical sample of reports from April 2004 through February 2007 received from the cities and counties across the state to determine if the follow-up efforts by the bureau were adequate.

As a result of this testwork, we concluded that management controls were adequate and management complied with applicable laws and regulations.

FINANCIAL INTEGRITY ACT

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

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

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

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 Bureau of Investigation filed its compliance reports and implementation plans on June 30, 2006; June 28, 2005; and July 2, 2004.

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

APPENDIX

ALLOTMENT CODE

The Tennessee Bureau of Investigation's allotment code is 348.00.