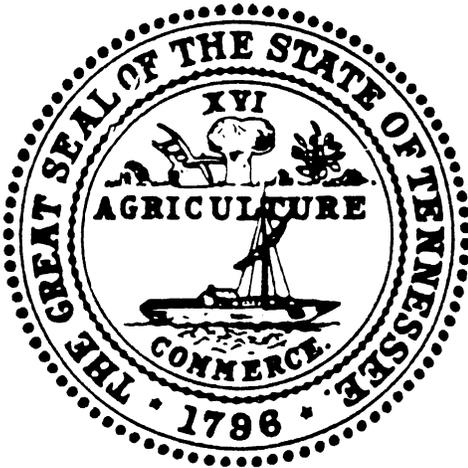


# AUDIT REPORT

Department of General Services

July 2008



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).

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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

July 15, 2008

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

The Honorable Gwendolyn Sims Davis, Commissioner  
Department of General Services  
Suite 2400, William R. Snodgrass Tennessee Tower  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of General Services for the period September 1, 2006, through March 31, 2008.

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/ajm  
08/060



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COMPTROLLER OF THE TREASURY  
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April 16, 2008

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

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of General Services for the period September 1, 2006, through March 31, 2008.

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

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/ajm

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of General Services**  
July 2008

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## AUDIT SCOPE

We have audited the Department of General Services for the period September 1, 2006, through March 31, 2008. 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 expenditures, contracts, payment cards, access to state computer systems, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

The audit report contains no findings.

# Financial and Compliance Audit Department of General Services

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# **Financial and Compliance Audit Department of General Services**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of General Services. 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.

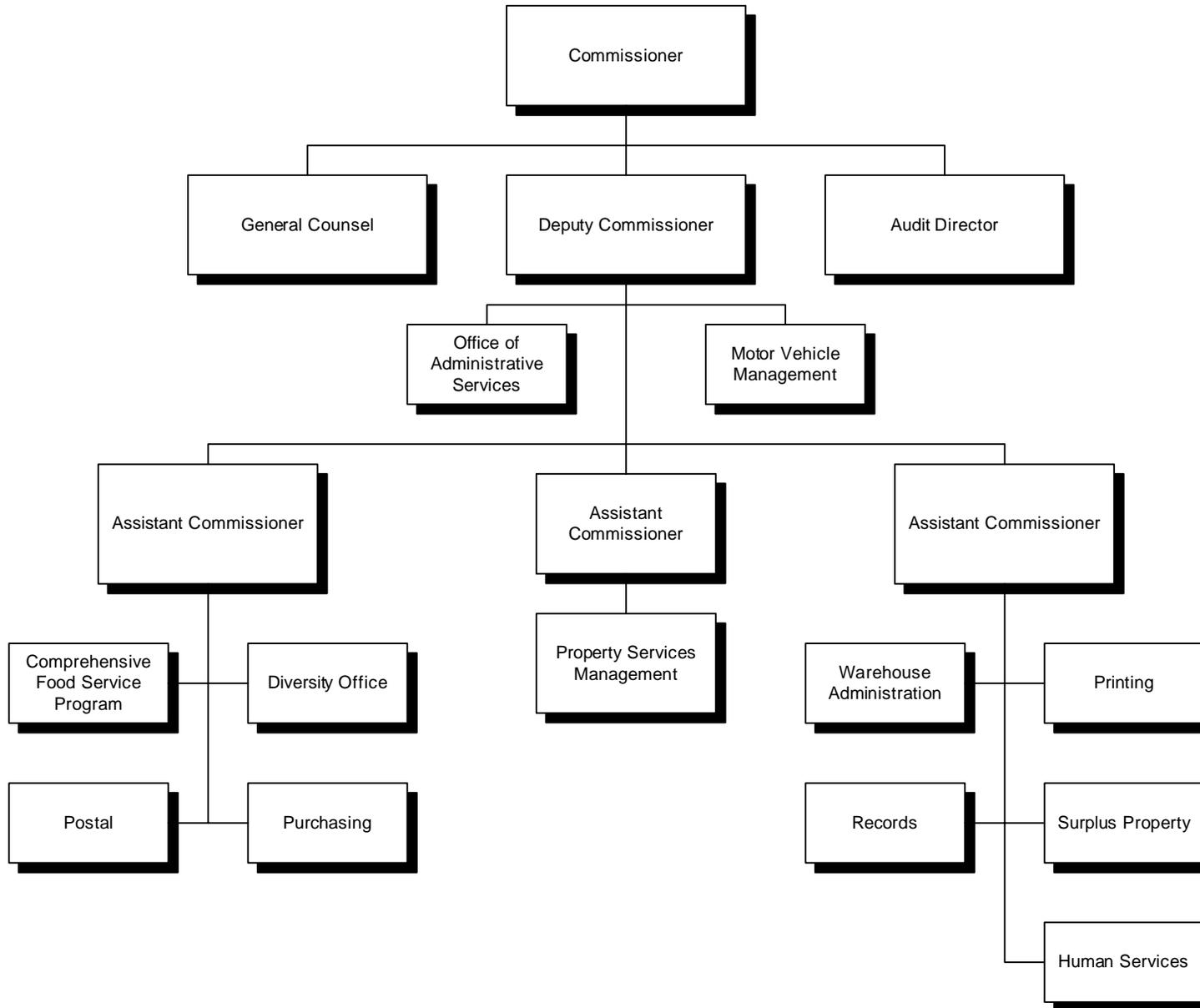
### **BACKGROUND**

The mission of the Department of General Services is to provide quality goods and services to all state agencies to facilitate the operation of state government in the most timely, efficient, and economical manner. To accomplish this mission, the department provides a broad range of support services to other departments and agencies of state government. Those services include procurement of equipment and materials, building management, safety and security, motor vehicle and equipment management, energy conservation efforts, surplus property utilization, printing and photographic services, postal services, food services, records management, and centralized warehouse services.

The department comprises four main areas: the Commissioner’s Office, the Governor’s Office of Diversity Business Enterprise, Administrative and Support Services, and Property Management. Administrative and Support Services and Property Management consist of several divisions.

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

# Department of General Services Organizational Chart



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## AUDIT SCOPE

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We have audited the Department of General Services for the period September 1, 2006, through March 31, 2008. 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 expenditures, contracts, payment cards, access to state computer systems, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of General Services filed its report with the Department of Audit on February 7, 2008. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the Department of General Services has substantially corrected previous audit findings concerning noncompliance with established internal control policies within the Division of Motor Vehicle Management, noncompliance with payment card policies, and untimely termination of access to the state's primary computer systems for former employees.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### EXPENDITURES

Our objectives in reviewing expenditures were to determine whether

- employee travel claims were properly completed and complied with the Comprehensive Travel Regulations;
- the commissioner's travel claims were properly completed and complied with the Comprehensive Travel Regulations; and
- expenditures, excluding travel, were properly supported and complied with the department's policies and procedures.

To accomplish our objectives, we reviewed all applicable policies and regulations and interviewed key department personnel to gain an understanding of the department's procedures and internal control over expenditures. We obtained a listing of all expenditures for the period September 1, 2006, through November 30, 2007. From this listing, we selected and tested a nonstatistical sample of travel claims as well as all of the commissioner's claims to determine whether the claims were properly completed and complied with the Comprehensive Travel Regulations. We also selected and tested a nonstatistical sample of non-travel expenditures to determine whether they were properly supported and complied with the department's policies and procedures.

As result of our testwork, we determined that the travel claims, including the commissioner's travel claims, were properly completed and complied with the Comprehensive Travel Regulations. In addition, we determined that non-travel expenditures were properly supported and complied with the department's policies and procedures.

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## CONTRACTS

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

- emergency purchase procedures were followed;
- delegated purchase authority contracts were justified and properly approved;
- Fuelman purchasing procedures were followed;
- staff timely sent discrepancy reports to individual state departments requiring explanation of unusual Fuelman purchases, and staff reviewed and followed up on explanations to ensure corrective action was taken by the departments when required;
- procedures for sole-source contracts were followed, and
- procedures for supplies purchases were followed.

To accomplish our objectives, we reviewed all applicable policies and regulations and interviewed key department personnel to gain an understanding of the department's procedures and internal controls over contracts. We obtained a Tennessee On-Line Purchasing System (TOPS) report of all statewide emergency purchases from all departments from the Division of Purchasing for the period September 1, 2006, through February 6, 2008. From this listing, we selected a nonstatistical sample of statewide emergency purchases to determine if the purchases were properly approved by the requesting agency and the Division of Purchasing, if the emergency purchase was properly justified, and that bids were properly obtained. We reviewed TOPS for documentation of approval and an explanation for emergency purchases to verify that procedures were followed.

We obtained a TOPS report of all statewide delegated purchase authority contracts from the Division of Purchasing for the period November 1, 2006, through January 31, 2008. From

this listing, we selected a nonstatistical sample of statewide delegated purchase authority (DPA) contracts to determine if the contracts were properly approved by the agency requesting the DPA, the Department of General Services, the Office of the Comptroller of the Treasury, and the Department of Finance and Administration. We also examined documentation on the TOPS system for the justification of the DPA.

We obtained a listing of all Fuelman purchases from all departments from the Division of Motor Vehicle Management for the month of January 2008. From this listing, we selected a nonstatistical sample of Fuelman purchases to determine if the amount of the Fuelman purchase agreed with the amount shown in the FleetTracker system, that sales tax was not paid, and that the purchase appeared appropriate. We also reviewed the discrepancy reports for the week of January 15, 2008, to determine if the reports were sent timely to the state departments and their responses were reviewed by the Department of General Services and that follow-up corrective action had been taken by the individual state departments.

We obtained a listing of all sole-source contracts for all departments from the Division of Purchasing for the period September 1, 2006, through February 6, 2008. From this listing, we selected a nonstatistical sample of sole-source contracts to determine whether the contract had been approved by the agency requesting the contract and at the required levels of approval in the Division of Purchasing, whether the contract had been reviewed by the Division of Purchasing, and whether there was documentation for the reasons the contract was sole-source.

We reviewed the supplies contract with Corporate Express which is the statewide contract for office supplies for state departments and agencies. We obtained a listing of all supply purchases made by all departments from Corporate Express for the period October 13, 2006, through December 10, 2007. From this listing, we selected a nonstatistical sample of supply purchases to determine if the purchase was adequately supported, that sales tax was not paid, and that the item purchased appeared appropriate and was not on the non-supply exclusion list.

As a result of our testwork, we determined that emergency purchase procedures were followed, the purchases were properly approved, justified and bids obtained. TOPS contained documentation and adequate explanations for emergency purchases. We determined that the delegated purchase authority contracts were properly approved at all levels and were properly documented and justified on TOPS. We determined that Fuelman purchasing procedures were properly followed, purchases agreed with the FleetTracker system, sales tax was not paid, and the purchases appeared appropriate. We also determined that discrepancy reports were sent timely, explanations were reviewed by General Services' staff, and proper follow-up action was taken by the individual departments. We determined that procedures for sole-source contracts were followed; contracts were properly approved at the required levels and sufficiently documented. We determined that procedures for supplies purchases were followed, purchases were adequately supported, sales tax was not paid, and items on the exclusion list had not been purchased.

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## PAYMENT CARDS

Our objectives in reviewing policies and procedures over payment cards were to determine whether

- cardholders were current Department of General Service employees;
- cardholders had proper training prior to payment card usage;
- cardholders had a completed application and maintenance form on file;
- cardholders had a signed cardholder agreement on file prior to card usage;
- cardholder privileges for separated employees were terminated in a timely manner;
- payment card transactions complied with the *State of Tennessee State Payment Card Cardholder/Approver Manual* and the Department of General Services' *Agency Purchasing Procedures Manual*;
- payment card transactions were reasonable and necessary for conducting state business;
- payment card transactions had adequate supporting documentation;
- cardholders' transaction logs were properly approved; and
- cardholders' transaction logs were reconciled to the payment card statements.

To accomplish our objectives, we interviewed key department personnel, including discussions with the department's payment card coordinator, and reviewed policies and procedures to obtain an understanding of the department's procedures and internal control over payment cards. A list of active cardholders for the period September 1, 2006, through February 29, 2008, was obtained. We determined whether the cardholders on the list were current Department of General Services' employees. We reviewed the active cardholders' files for documentation of training prior to payment card usage, a completed application and maintenance form, and a signed cardholder agreement. We obtained a list of separated employees and compared the names on the list to the active cardholders list. For those separated employees, we determined whether their cardholder privileges were terminated in a timely manner.

We obtained a database of all payment card transactions from September 1, 2006, through January 31, 2008. We reviewed this database to identify any possible payments to inappropriate or suspicious vendors, purchases that were split to circumvent purchasing rules, and any purchases that exceeded preset limits. Based on our review, we selected and tested certain transactions to determine whether the payment card transactions were adequately supported, were reasonable and necessary for conducting state business, and complied with the *State of Tennessee State Payment Card Cardholder/Approver Manual* and the Department of General Services' *Agency Purchasing Procedures Manual*. We also obtained a listing of cardholders' payment card transaction logs for the period September 1, 2006, through January 31, 2008. We tested a nonstatistical sample of these logs to determine whether the logs were properly approved and were reconciled to the payment card statements.

As result of our reviews, discussions, and testwork, we determined that active cardholders were current employees of the Department of General Services. We also determined that cardholders had an application and maintenance forms on file; had signed a cardholder agreement prior to receiving payment card; and had proper training prior to receiving payment card with minor exceptions. We determined that terminated and suspended employees cardholder privileges were terminated in a timely manner with minor exceptions; payment card transactions complied with the *State of Tennessee State Payment Card Cardholder/Approver Manual* and the Department of General Services' *Agency Purchasing Procedures Manual*; the transactions appeared reasonable and necessary for conducting state business and were properly supported. Cardholders' transaction logs were properly approved and reconciled to the payment card statements.

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## **ACCESS TO STATE COMPUTER SYSTEMS**

Our objectives for reviewing the access to state computer systems were to determine whether

- persons with access to the State of Tennessee Accounting and Reporting System (STARS), the Tennessee On-Line Purchasing System (TOPS), and the Property of the State of Tennessee (POST) system were current employees; and
- access to STARS, TOPS, and POST was deactivated when employees terminated employment.

To accomplish our objectives, we obtained a listing of all employees with user access to STARS, TOPS, and POST as of December 12, 2007. We compared these listings with current employee listings to ensure that only current employees had access to the state's computer systems. We also obtained a listing of employees that had been separated from the department prior to December 12, 2007, to ensure that former employees no longer had access to the state's computer systems as of this date.

We determined that persons with user access to STARS, TOPS, and POST were current employees with minor exceptions. We performed further testwork for separated employees that continued to have access on December 12, 2007, to ensure their RACF ID had been terminated, mitigating the risk of physical access to the systems noted above. All RACF IDs had been terminated.

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## **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 department's June 30, 2007, responsibility letter and December 31, 2007, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department'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 department's procedures. We reviewed the June 30, 2007, responsibility letter and the December 31, 2007, 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 department's evaluation of its internal accounting and administrative control. To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letter 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 accordance with *Tennessee Code Annotated*. Corrective actions are being implemented for weaknesses identified in the report.

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## OBSERVATIONS AND COMMENTS

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### 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.

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## **FRAUD CONSIDERATIONS**

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

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

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## 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 October 1 each year. The Department of General Services filed its compliance report and implementation plan on June 28, 2007.

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. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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### ALLOTMENT CODES

321.01	Administration
321.02	Postal Services
321.04	Property Utilization
321.06	Motor Vehicle Management
321.07	Property Management
321.09	Printing
321.10	Purchasing
321.17	Records Management
321.18	Central Stores
321.19	Comprehensive Food Services Program
501.01	Facilities Revolving Fund – Building Maintenance
501.02	Facilities Revolving Fund – Project Maintenance