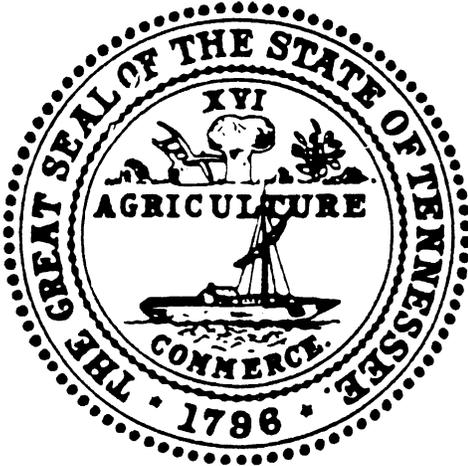


AUDIT REPORT

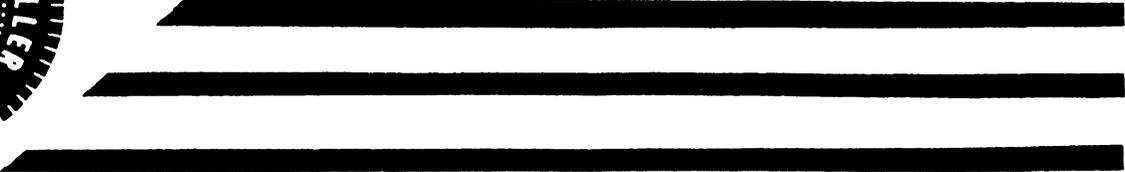
Department of State

November 2008



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
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John G. Morgan
Comptroller

November 13, 2008

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Riley C. Darnell
Secretary of State
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of State for the period February 1, 2005, through July 31, 2008.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
08/077



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

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August 21, 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 State for the period February 1, 2005, through July 31, 2008.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Management of the Department of State is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's management has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of State'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

Department of State

November 2008

AUDIT SCOPE

We have audited the Department of State for the period February 1, 2005, through July 31, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue; payment cards; grants and contracts; the Division of Business Services - Motor Vehicle Temporary Liens and Summons; and the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

The Cash-Receipting Function of the Corporate Management System Is Not Adequate, Providing the Opportunity for Theft of Funds or Abuse to Occur Without Detection*

The Corporate Management System (CMS) simultaneously documents services provided by the department and receipts the fees collected. However, no controls are in place within the CMS to prevent data-entry clerks from tying new documents received to documents already recorded in the system from past transactions. Failure to correct the cash-receipting problem could result in a loss of revenue for the department either from the theft of corporate filing fees or from employees providing corporate filing services to corporations free of charge (page 5).

* This finding is repeated from prior audits.

Financial and Compliance Audit Department of State

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Financial and Compliance Audit Department of State

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of State. 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 Secretary of State is one of the three constitutional officers provided by Tennessee’s constitution. The Secretary of State, according to the constitution, is to maintain a register of the official acts and proceedings of the Governor and is to be prepared to present them before the General Assembly. Additional functions of the Secretary of State are outlined in the state statutes and regulations.

The Secretary of State is the chief officer of the Department of State. The Department of State keeps the original copies of all acts and resolutions adopted by the General Assembly and signed by the Governor. Certified copies of public and private acts are available for a nominal fee. The department is also required by statute to keep other records: the receipt and recording of corporate charters, the receipt of trademarks, the execution of notary commissions, and the receipt of state administrative rules and regulations.

The Department of State is organized into nine major divisions: Fiscal and Administrative Services, Personnel and Development, Information Systems, Administrative Procedures, Business Services, Charitable Solicitations and Gaming, Elections, Library and Archives, and Publications.

The Fiscal and Administrative Services division provides the general administrative services necessary to support the department. These include budgeting, accounting, procurement, and special administrative services.

The Personnel and Development division is responsible for the department's human resources activities. These activities include the management of employment practices, administration of employee programs, and compliance with human rights legislation.

The Information Systems division is responsible for all information technology services necessary to support the Department of State. These responsibilities include information systems and technology planning, project development and implementation, technical support, network planning and administration, and procurement assistance.

The Administrative Procedures division provides administrative judges to conduct contested case hearings for state administrative agencies and develops uniform rules of procedure for the conduct of those hearings. This division is also required to assist state agencies in complying with the Uniform Administrative Procedures Act.

The Business Services division executes the processing and recordkeeping duties of the Secretary of State relating to the following areas: Apostilles and Authentications, Corporations, General Partnerships, Limited Liability Companies, Limited Liability Partnerships, Limited Partnerships, Mine Foreman Certificates, Motor Vehicle Temporary Liens, Municipal Clerk Certifications, Nonresident Fiduciary Appointments, Notary Commissions, Summons, State Deeds and Leases, Trademarks, and Uniform Commercial Code.

The Charitable Solicitations and Gaming division is responsible for the registration and regulation of charitable organizations, charitable gaming events, professional solicitors, professional fundraising counsels, and vendors that solicit contributions for the benefit of charitable organizations. The division also investigates fund-raising irregularities and takes appropriate action to assure public confidence in charitable activities.

The Elections division is responsible for coordinating the activities of county election commissions and the uniformity of election procedures throughout the state. The coordinator interprets questions of the law for the benefit of all election officials, reviews election law legislation, and prepares the election manual and election handbooks for use by election officials.

The Library and Archives division collects and preserves books and records of historical, documentary, and reference value and encourages and promotes library development throughout the state.

The Publications division publishes the *Tennessee Blue Book*, *Public and Private Acts of the General Assembly*, *Tennessee Administrative Register*, *Tennessee Open Appointments Vacancy Report*, *Rules and Regulations of the State of Tennessee*, and other documents for which the Secretary of State is responsible. This division is also responsible for the creation and maintenance of the department's website.

For administrative purposes, the State Election Commission, the Tennessee Registry of Election Finance, the Tennessee Economic Council on Women, and the Tennessee Ethics

Commission are attached to the Department of State for all matters relating to receipts, disbursements, budgets, audits, and other related items.

An organization chart of the Department of State is on the following page.

AUDIT SCOPE

We have audited the Department of State for the period February 1, 2005, through July 31, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue; payment cards; grants and contracts; the Division of Business Services - Motor Vehicle Temporary Liens and Summons; and the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of State filed its report with the Department of Audit on March 10, 2006. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning inadequate cash-receipting procedures for the Corporate Management System. This finding has not been resolved and is repeated in the applicable section of this report.

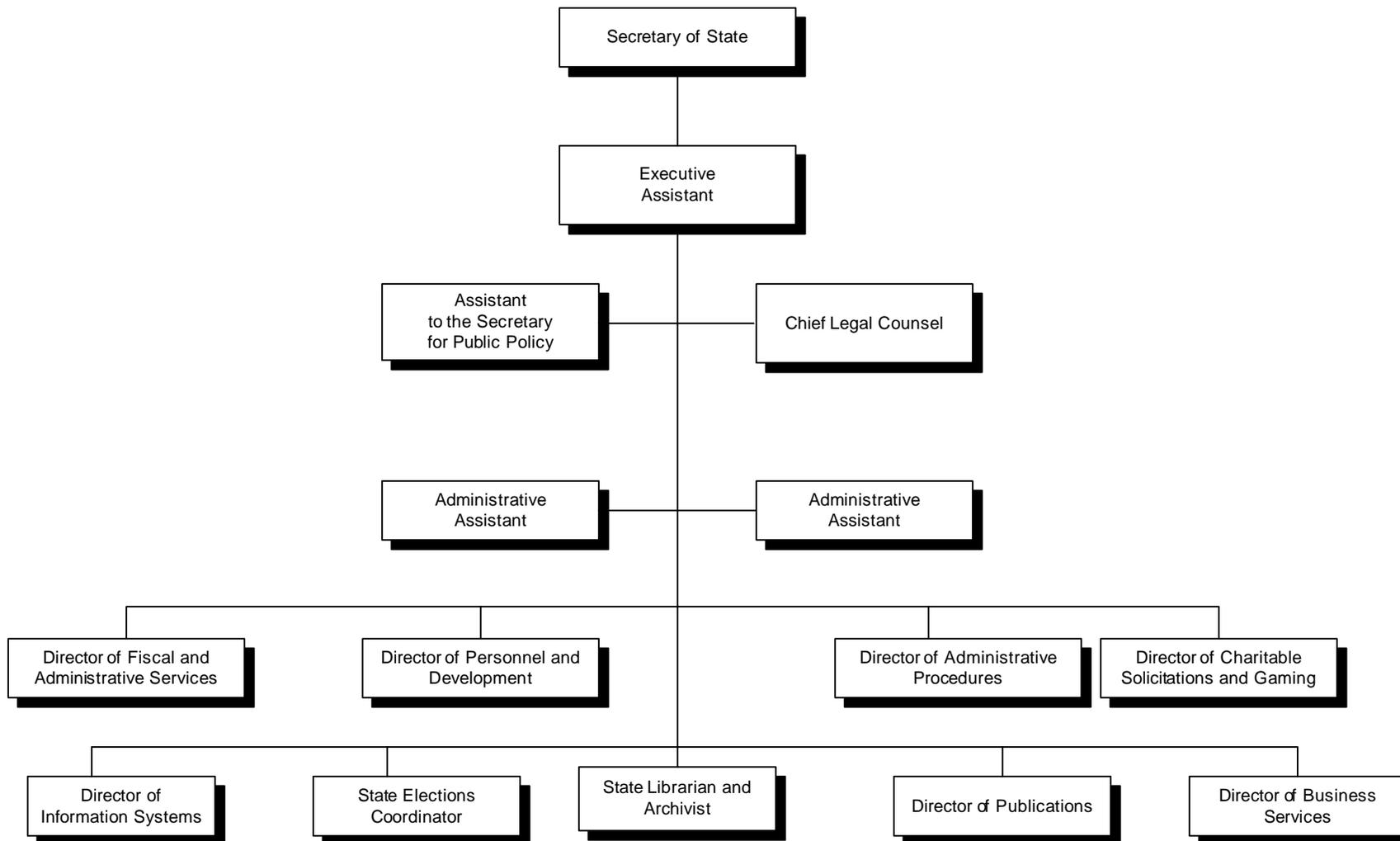
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

The objectives of our review of revenue were to determine whether

- revenue transactions were properly recorded, cash receipts collected during the audit period were deposited timely, and fees were billed or charged at the correct amount for the Tennessee Registry of Election Finance and the Tennessee Ethics Commission;

Department of State Organization Chart



- revenue functions were adequately segregated and physical controls over cash receipts were adequate; and
- the prior audit finding on the Corporate Management System had been corrected.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. Testwork was performed on a nonstatistical sample of revenue transactions the Tennessee Registry of Election Finance and the Tennessee Ethics Commission for the period February 1, 2005, through June 16, 2008, to determine whether transactions were properly recorded, cash receipts were deposited timely, and fees were billed or charged at the correct amount. Walkthroughs were performed to see whether functions were adequately segregated and physical controls were adequate. We discussed with management whether the prior audit finding had been corrected.

We determined that revenue transactions were properly recorded, cash receipts were deposited timely with some exceptions, and fees were billed or charged at the correct amount for the Tennessee Registry of Election Finance and the Tennessee Ethics Commission. We also determined that revenue functions were adequately segregated and physical controls were in place in all material respects. However, we determined that the prior audit finding had not been corrected. The cash-receipting function of the Corporate Management System is not adequate, as discussed in the following finding.

The cash-receipting function of the Corporate Management System is not adequate, providing the opportunity for theft of funds or abuse to occur without detection

Finding

As noted in the prior eight audits, we found that the cash-receipting function of the Corporate Management System (CMS) is not adequate to mitigate potential risks of theft or abuse. CMS is a computer system that provides information such as corporation name, account number, address, and amount paid on corporate filings of documents. Management implemented the CMS system in 1987 to simultaneously document corporate filing services and the receipt of fees collected for those services.

Management has agreed in prior audits that CMS has inadequate controls over its cash-receipting procedures. Management concurred with the previous finding and stated that attempts to replace CMS were unsuccessful. Management stated that while attempting to correct the CMS system they also had to address another mission-critical system in the Business Services Division which had reached the end of its useful life, and all resources were dedicated to upgrading the Uniform Commercial Code Management System (UCCMS). Management further stated that once the UCCMS was fully upgraded and stable, the department would then, once again, attempt to replace the existing CMS. Management's comments from other prior audits related to the recurring finding are exhibited in the appendix on pages 13-14.

We did note in 2005 that management, in their efforts toward corrective action, had implemented compensating controls to mitigate some of the risks associated with the CMS deficiencies. During our current audit, management identified this risk in their risk assessment and noted these compensating controls which help reduce the risk of fraud. Specifically, the Filing Officer or Filing Specialists open the mail, restrictively endorse all checks, and scan images of all incoming checks and accompanying corporate documents. The endorsement reads, "Treasurer State of Tennessee, Department of State," and also includes the bank account number. If walk-in customers want to pay cash, the receptionist sends them to the accounting office, where the Accounting Technician collects the cash and issues them a cash receipt. The data-entry clerks approve the corporate filing documents and send an acknowledgement approval letter to the filing corporation. This letter also includes a receipt showing the name and address of the corporation credited with filing the appropriate documents and the fees paid as recorded in CMS.

Although management has taken action and implemented manual controls to help mitigate risks of potential theft and abuse, we still believe the data-entry clerks could record new service documents and steal the related fee by tying the new filing documents to documents already recorded in the system from past transactions. Failure to correct the cash-receipting problem could result in a loss of revenue for the department either from the theft of corporate filing fees or from employees providing corporate filing services to corporations free of charge.

Based on our discussions with the Director of Fiscal Services, management finished the upgrade for the UCCMS and hired a consultant to locate a replacement system for the CMS. The consultant located a new system which will meet the needs of the department, and the department has gained permission from the state of Wyoming to use their system. The department is in the process of contracting with the vendor to modify the Wyoming system to meet the department's needs.

Recommendation

The Secretary of State should continue to pursue the installation of a new system that will ensure documents cannot be filed unless the fee remitted by the customer relates directly to the new documents submitted for filing. The Secretary and top management should continue to evaluate the risks associated with cash-receipting procedures and implementation of a new system and document these risks and mitigating controls in the formal risk assessment.

Management's Comment

We concur. Steps have been taken to replace the system in question. Specifically, the Secretary of State's Office signed a Memorandum of Understanding in August 2008 with the state of Wyoming setting forth the framework under which the Wyoming Business Entity and Annual Reporting (WYO BEAR) system would be transferred to Tennessee. Furthermore, the Secretary of State's Office has executed a contract with Tecuity, Inc. to modify the WYO BEAR system to meet Tennessee's business requirements. The Tecuity contract was signed September 22, 2008. Implementation of the new Corporate Management System in Tennessee is scheduled for October 2009.

PAYMENT CARDS

The objectives of our review of payment cards were to

- determine whether payment card cardholders were properly approved;
- determine whether payment card purchases were properly supported, approved, and reconciled to the monthly payment card statement, complied with the *State of Tennessee Cardholder/Approval Manual*, and complied with the Department of General Services' purchasing policies and procedures;
- review transactions for suspicious or forbidden vendors;
- determine that items purchased actually existed and were used at the department; and
- discuss with the agency coordinator what problems with payment cards have occurred and determine what disciplinary actions have been taken against cardholders.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over payment cards. We reviewed the listing of payment card cardholders to determine whether cardholders were properly approved. We also reviewed supporting documentation and performed analytical procedures for the period April 19, 2007, through June 19, 2008, on payment card transactions to determine whether purchases were properly supported, approved, and reconciled to the monthly payment card statement, complied with the *State of Tennessee Cardholder/Approval Manual*, and complied with the Department of General Services' purchasing policies and procedure. These purchases were also reviewed for suspicious or forbidden vendors, and whether items existed and were used at the department. The agency coordinator was interviewed to determine what problems with payment cards had occurred and what disciplinary actions had been taken against cardholders for the period April 19, 2007, through June 19, 2008.

We determined that the department only had one payment card cardholder, and she was properly approved. We also determined that payment card transactions were properly supported, approved, reconciled to the monthly payment card statement, complied with the *State of Tennessee Cardholder/Approval Manual*, and complied with the Department of General Services' purchasing policies and procedures. Also, we found no suspicious or forbidden vendors, and items existed and were used at the department. The agency coordinator stated that no problems with payment cards or disciplinary actions against cardholders had occurred during the period April 19, 2007, through June 19, 2008.

GRANTS AND CONTRACTS

The objectives of our review of grants and contracts were to determine whether

- a monitoring plan was submitted and the appropriate number of grantees was monitored in accordance with the Department of Finance and Administration's Policy 22–*Subrecipient Monitoring*; and
- appropriate monitoring procedures were followed regarding the awarding of the contracts and grantee compliance with the terms of the contracts.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over grants and contracts and reviewed supporting documentation. The monitoring plans for the period February 1, 2005, through June 23, 2008, were obtained and reviewed. We reviewed the list of grantees and discussed with department personnel the selection of the appropriate number of grantees to be monitored. We tested a nonstatistical sample of grants and contracts for the period February 1, 2005, through June 23, 2008, to ensure that appropriate monitoring procedures were followed.

We determined that monitoring plans were submitted and the appropriate number of grantees was monitored in compliance with Department of Finance and Administration's Policy 22 with minor exceptions. We also determined that appropriate monitoring procedures were followed regarding the awarding of the contracts and grantee compliance with the terms of the contracts.

DIVISION OF BUSINESS SERVICES

Motor Vehicle Temporary Liens

The Motor Vehicle Temporary Liens Program establishes a procedure in the Office of the Secretary of State for recording a lien on a vehicle prior to the issuance by the Department of Safety of a certificate of title evidencing that lien. When a manufacturer's statement of origin or an existing certificate of title is unavailable, a first lien holder may file with the Division of Business Services a notarized copy of an instrument creating and evidencing a lien on the

vehicle. The filing of such a document with the Division of Business Services constitutes constructive notice of the lien against the vehicle to creditors of the owner and subsequent purchasers, except liens that are by law dependent on possession.

The objectives of our review of Motor Vehicle Temporary Liens in the Division of Business Services were to determine that a notarized copy of the lien was on file and payment of the filing fee was received.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over Motor Vehicle Temporary Liens and reviewed supporting documentation. We tested a nonstatistical sample of Motor Vehicle Temporary Liens transactions for the period August 9, 2007, through July 1, 2008, to determine that a notarized copy of the lien was on file and that payment of the filing fee was received.

We determined that Motor Vehicle Temporary Liens transactions had the notarized copy of the lien on file and payment of the filing fee was received.

Summons

The Summons section is responsible for issuing summons to certain individuals or businesses in legal proceedings. The summons announces that a legal proceeding has been started against that individual or business and that a file has been started in the court records. The summons will also announce a date the defendant must either appear in court, or respond in writing to the court or to the opposing party or parties.

The objectives of our review of the Summons section in the Division of Business Services were to determine if all relevant information was recorded into the Service of Process Database and that the servicing fee was received and recorded.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over Summons and reviewed supporting documentation. We tested a nonstatistical sample of Summons' transactions for the period February 1, 2005, through July 8, 2008, to determine if all relevant information was recorded into the Service of Process Database and the servicing fee was received and recorded.

We determined that all relevant information was recorded into the Service of Process Database and that the servicing fee was received and recorded.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to conduct an evaluation of the agency's internal accounting and administrative control and submit a report to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's December 31, 2007, internal accounting and administrative control report was 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 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 department's procedures. We also reviewed the December 31, 2007, internal accounting and administrative control report to determine whether it 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.

We determined that the Financial Integrity Act internal accounting and administrative control report was 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*. 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. Management's responsibility is 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 entity 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, *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.

AUDIT COMMITTEES

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.

We recommend that the Tennessee Ethics Commission establish an audit committee and charter. The board of the Tennessee Registry of Election Finance appointed a six-member committee on September 13, 2006. The audit committee charter was approved by the Comptroller of the Treasury on October 26, 2006. Additionally, the audit committee has reviewed management’s risk assessment, code of conduct, and conflict-of-interest policy. On August 25, 2006, the Economic Council on Women was granted an exemption by the Comptroller of the Treasury from the requirements to create an audit committee.

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 beginning with the Title VI compliance report and implementation plan due in 2007. Prior to 2007, the Title VI compliance report and implementation plan was due by June 30 each year.

The Department of State filed its compliance reports and implementation plans on June 30, 2005; June 29, 2006; June 28, 2007; and June 30, 2008.

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.

APPENDIX

ALLOTMENT CODES

305.01	Secretary of State
305.02	State Election Commission
305.03	Public Documents
305.04	State Library and Archives
305.05	Regional Library System
305.06	Library Construction
305.07	Registry of Election Finance
305.08	Economic Council on Women
305.09	Charitable Solicitations and Gaming
305.10	Help America Vote Act
305.11	Ethics Commission

PREVIOUS RESPONSES FROM MANAGEMENT TO REPEATED AUDIT FINDING INCLUDED IN THIS REPORT

Current Finding

The cash-receipting function of the Corporate Management System is not adequate, providing the opportunity for theft of funds or abuse to occur without detection

Management's Comments

For the 18-Month Period Ended December 31, 1989

We concur. The Corporate Charter Management System will be evaluated to determine program changes that can be made to insure that the proper fee has been paid before documents are filed.

For the 18-Month Period Ended June 30, 1991

We concur. An estimate of the cost to implement the recommended system changes has been obtained from the Department of Finance and Administration, Office for Information Resources. The department plans to request that the necessary programming changes be made during the current fiscal year subject to the availability of funding.

For the Years Ended June 30, 1993, and June 30, 1992

We concur. Progress will continue to be made as resources, both in this department and in the Office for Information Resources, are available for such purpose.

For the Years Ended June 30, 1995, and June 30, 1994

We concur.

For the Years Ended June 30, 1997, and June 30, 1996

We concur. Development of the new system has begun.

For the Years Ended June 30, 1999, and June 30, 1998

We concur. Working closely with the Department of Finance and Administration, Office for Information Resources, we are finalizing the Request for Proposal that will lead to the acquisition of the new Corporate Management System.

For the Years Ended June 30, 2001, and June 30, 2000

We concur. This deficiency is being corrected through the installation of a new Corporate Management System. We are currently in the testing phase of the new system and expect full implementation within the next three months.