AUDIT REPORT

Office of Legislative Administration

December 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

TENNESSEE COMPTROLLER OF THE TREASURY

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

Kandi B. Thomas, CPA, CFE
Assistant Director

Shirley A. Henry, CPA
Audit Manager

Thad Sanders, CPA
In-Charge Auditor

Adrian Davis
Staff Auditor

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

December 30, 2008

The Honorable Ron Ramsey
Speaker of the Senate
and
The Honorable Jimmy Naifeh
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Connie Ridley, Director of Administration
Office of Legislative Administration
7th Floor Rachel Jackson Building
320 6th Avenue North
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Office of Legislative Administration for the period November 1, 2006, through August 31, 2008.

We conducted our 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 Office of Legislative Administration 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 certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The office's management has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the office's internal control to the Office of Legislative Administration's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sah
08/095

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Office of Legislative Administration
December 2008

AUDIT SCOPE

We have audited the Office of Legislative Administration for the period November 1, 2006, through August 31, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of expenditures and revenues. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

As Noted in the Prior Two Audits, the Office of Legislative Administration Has Not Established Adequate Controls Over the Supplies Inventory, Increasing the Likelihood That Theft of Inventory Could Occur and Not Be Detected Timely by Management**

Our testwork revealed that the Supply and Inventory Technician did not use the perpetual inventory system consistently and the inventory listing did not always reflect the actual inventory on hand. In addition, the Director did not ensure that periodic physical counts of inventory were performed (page 5).

The Office of Legislative Administration Placed an Employee on Administrative Leave With Pay for Six Months Without Adequate Justification and Without Proper Documentation of the Request and Approval of Such Leave, Resulting in Unnecessary Costs to the State of More Than $24,000

The Director of the Office of Legislative Administration placed an employee on administrative leave with pay from October 1, 2007, through March 31, 2008, without adequate justification and proper documentation of the request and approval for the leave (page 7).

** This finding is repeated from prior audits.

Financial and Compliance Audit
Office of Legislative Administration

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	1
PRIOR AUDIT FINDINGS	3
Resolved Audit Finding	3
Repeated Audit Finding	3
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	3
Expenditures	
Finding 1 - As noted in the prior two audits, the Office of Legislative Administration has not established adequate controls over the supplies inventory, increasing the likelihood that theft of inventory could occur and not be detected timely by management	5
Finding 2 - The Office of Legislative Administration placed an employee on administrative leave with pay for six months without adequate justification and without proper documentation of the request and approval of such leave, resulting in unnecessary costs to the state of more than $24,000	7
Revenues	8
OBSERVATIONS AND COMMENTS	9
Management's Responsibility for Risk Assessment	9
Fraud Considerations	10
APPENDICES	11
Allotment Codes	11
Management's Comment From Prior Audit	11

Financial and Compliance Audit
Office of Legislative Administration

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of Legislative Administration. 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

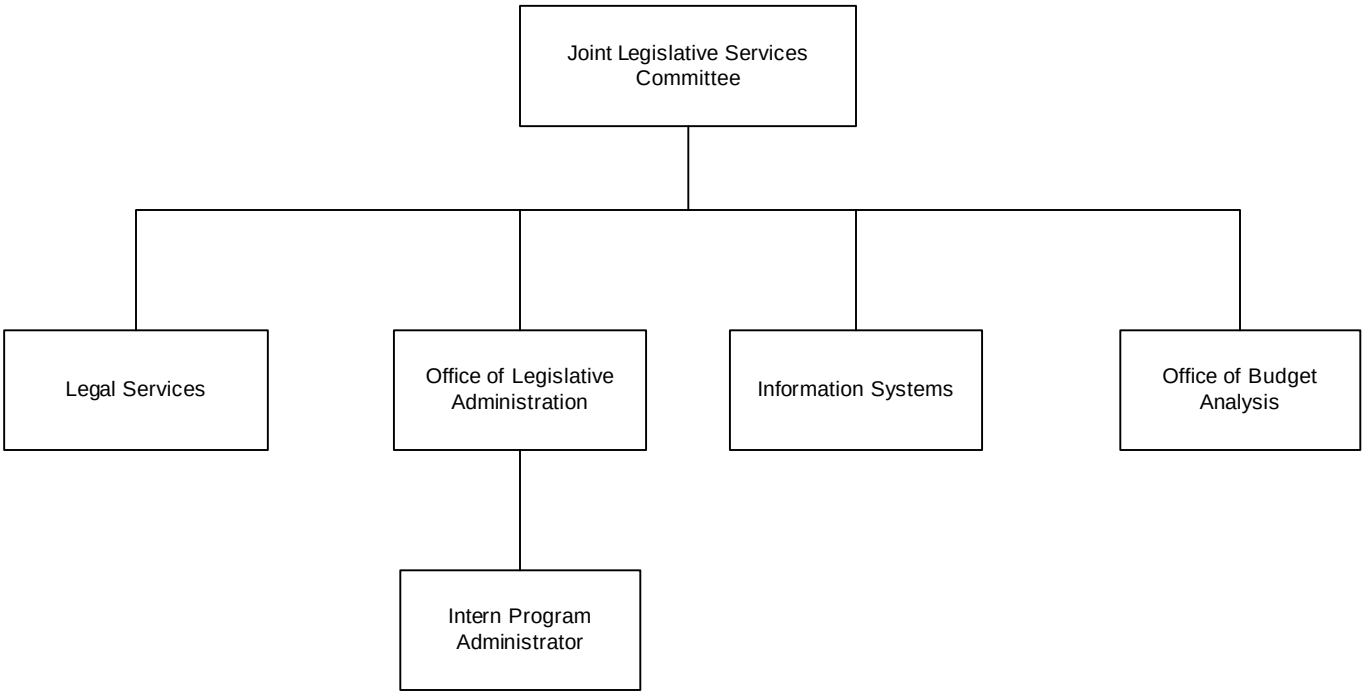
The Office of Legislative Administration processes the expenditures and revenues of the General Assembly and its committees, commissions, and support agencies, except for the Fiscal Review Committee. Legislative Administration is also responsible for human resources issues and staff administration including the Legislative Intern Program.

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

AUDIT SCOPE

We have audited the Office of Legislative Administration for the period November 1, 2006, through August 31, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of expenditures and revenues. The audit was conducted in accordance with generally accepted government auditing standards.

Office of Legislative Administration
Organization Chart



PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Office of Legislative Administration filed its report with the Department of Audit on October 10, 2008. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Office of Legislative Administration has corrected the previous audit finding concerning the lack of a documented risk assessment.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning inadequate controls over supplies inventory. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

The objectives of our review of expenditures were to determine whether

- corrective actions, as described by management, were taken in regard to the supplies inventory;
- access to the State of Tennessee Accounting and Reporting System (STARS) was properly restricted;
- expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system;
- payments for goods and services were made in a timely manner;
- expenditures for travel were in accordance with the Comprehensive Travel Regulations and, as applicable, Section 3-1-106, *Tennessee Code Annotated*;
- voucher registers were properly approved; and

- circumstances surrounding employees placed on administrative leave indicated improper activity.

We reviewed applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the office's controls over expenditures necessary to achieving the audit objectives. We reviewed the supplies inventory procedures to determine whether corrective actions, as described by management, had been taken. We also performed test counts of sample items on the inventory listing noting any differences between the inventory records and the quantity that we counted. We reviewed the STARS security files to determine which employees were recognized users and to determine whether these employees' levels of access properly related to their job duties. We selected a nonstatistical sample of expenditures for the period November 1, 2006, through May 31, 2008, and examined supporting documentation to determine whether expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system and that payments were made in a timely manner. We tested the sample items related to travel for compliance with the Comprehensive Travel Regulations and, as applicable, Section 3-1-106, *Tennessee Code Annotated*. We reviewed voucher registers for the period November 1, 2006, through May 31, 2008, to determine if the registers were properly approved. We obtained the name of the one employee who was placed on administrative leave with pay and discussed the circumstances with the Personnel Analyst and the Director.

Based on our reviews, interviews, observations, and testwork, we determined that

- corrective actions in regard to the supplies inventory had not been implemented, as discussed in finding 1;
- access to STARS was properly restricted;
- expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system;
- payments for goods and services were made in a timely manner;
- expenditures for travel were in accordance with the Comprehensive Travel Regulations and, as applicable, Section 3-1-106, *Tennessee Code Annotated*;
- voucher registers were properly approved; and
- the propriety of the administrative leave with pay granted to one employee was questionable, as discussed in finding 2.

1. As noted in the prior two audits, the Office of Legislative Administration has not established adequate controls over the supplies inventory, increasing the likelihood that theft of inventory could occur and not be detected timely by management

Finding

As noted in the prior two audits, the Office of Legislative Administration has not established adequate controls over the supplies inventory. Our testwork revealed that the Supply and Inventory Technician did not use the perpetual inventory system consistently and the inventory listing did not always reflect the actual inventory on hand. In addition, the Director did not ensure that periodic physical counts of inventory were performed.

The prior audit cited the fact that the Office of Legislative Administration did not maintain a perpetual inventory system. In response to the prior finding, management concurred that the perpetual inventory system had not been fully installed and implemented at the time of the conclusion of the audit, but stated:

> On file in the Office of Legislative Administration is written certification that the perpetual inventory system has been fully installed and is fully operational as directed in the previous audit. This written documentation also reflects that a complete inventory of supplies is accurate and concise to the best of our knowledge.

Management's response to this finding from the earlier audit is exhibited in the appendix titled "Management's Comment From Prior Audit."

During the current audit period, the office completed the installation of the perpetual inventory system; however, we found that the Supply and Inventory Technician did not use the perpetual inventory system consistently. The system provides for the scanning of bar codes to add items to the inventory; however, our discussion with the Supply and Inventory Technician disclosed that he often received items and placed them on the shelves without scanning them into the inventory system. He stated that when he has a long line of people waiting to get supplies, he will sometimes distribute the supplies to them even if they have not been previously logged into the system. He also stated that the task of running the supply room is difficult for one person and that he did not always scan items when they were issued. The failure to scan items in when they are received and to scan items out when they are distributed negates the use of a perpetual inventory system.

The prior audit also cited the fact the Office of Legislative Administration did not perform regular physical inventories of its supplies. Based on our discussion with the Supply and Inventory Technician, that was also the case during our audit period. He stated that he had not performed a physical inventory because he would need help in completing the task. When we asked why he had not found someone to help perform the inventory, he stated that he would expect management to provide him with help to complete a physical inventory. We performed test counts to compare the quantity of inventory items on hand with the quantity shown on the

inventory listing. For 13 of 17 inventory items we counted, the quantity on hand based on our count did not agree with the quantity on the inventory system. For 12 of the 13 items, our count was greater than the quantity shown in the system. The variances ranged from one to 42 with over half of the differences being 10 or less. For one of the 13 items, our count was less than the quantity shown in the system; the difference was 15. The Supply and Inventory Technician stated that he caused these differences by not properly scanning the bar codes as inventory was received and issued.

Based on our walkthrough, the contents of the supply room include office supplies, picture frames, and United States and Tennessee flags. The Supply and Inventory Technician stated that the estimated value of the supply inventory is $10,000 to $15,000; however, we could not confirm that information since the inventory records were not consistently updated.

If the Director does not provide appropriate staff so that controls over the supply inventory can work effectively, which would include consistent updating of the system as supplies are received and given out and performing periodic physical inventory counts for comparison with the perpetual inventory records, theft of inventory could occur and not be detected timely by management, which increases the risk of fraud, waste, or abuse.

Recommendation

The Director should provide adequate staff to ensure that controls over the supply room operations include the proper use of the perpetual inventory system and periodic physical inventory counts, which should be performed in the presence of an employee who is independent of the supply inventory. The Director should also ensure that the inventory procedures provide for making adjustments to the inventory based on the counts, with the proper approval.

The Director recently began a formalized risk assessment process and should ensure that risks such as those noted in this finding are adequately identified and assessed in management's documented risk assessments. The Director should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Director should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with this finding and indicated to the audit team that we were already aware that the newly installed inventory system was not working to meet our inventory needs and that the Supply Room Technician was not properly utilizing the system. The decision had already been made and preparations begun to utilize the Edison inventory system. When the Edison financials component goes live for the Legislature, which will be April of 2009, we will convert the supply room inventory system. The Supply Room Technician will be advised that future failure to properly utilize the system may lead to disciplinary action or a transfer from the position.

Further, physical inventory of the supply room will be assigned and completed by staff in the Office of Legislative Administration independent of the supply room operation.

2. The Office of Legislative Administration placed an employee on administrative leave with pay for six months without adequate justification and without proper documentation of the request and approval of such leave, resulting in unnecessary costs to the state of more than $24,000

Finding

The Director of the Office of Legislative Administration placed an employee on administrative leave with pay from October 1, 2007, through March 31, 2008. This employee worked for the Senate Engrossing Clerk's Office, and due to organizational restructuring, the employee's position was eliminated.

The Office of Legislative Administration's *Operations and Policies Manual*, Personnel Policies section, states:

> Requests for Administrative Leave with pay must be submitted to the Speaker in writing fully explaining the reason for the leave and must be approved by the Speaker prior to the payment of such leave.

According to the Director, she did not request administrative leave for this employee in writing but did discuss this employee's situation with the Speaker of the Senate. The Director also stated that she received verbal approval from the Speaker of the Senate to place this employee on administrative leave with pay while the Director attempted to find the employee a new position in state government. We also asked the Director about her justification for requesting administrative leave with pay for this employee, and more importantly, her justification for allowing the employee to remain on administrative leave with pay for six months. Apparently, once the Director received verbal approval from the Speaker, no one questioned whether the decision to continue paying the employee was a prudent one for the state's taxpayers.

According to the office's Personnel Analyst, the office found a new position for this employee in another state agency effective April 1, 2008, and immediately stopped the administrative leave with pay to the employee on March 31, 2008. However, we also determined through our discussions with the Personnel Analyst that the employee was not sure if she wanted the new position and she began using annual leave on April 1 and continued on annual leave through May 15. On May 16, 2008, the employee took the new job.

During this six-month period, the employee did not work at all but continued to receive her salary and benefits, which included the accrual of 12 annual leave days and 6 sick leave days. The employee's monthly rate of pay was $4,066. The office paid a total of $24,396 to the employee in salary compensation, and the office incurred additional expenses for the leave

accrued while the employee was on administrative leave with pay. The value of leave earned while the employee was on leave with pay was $3,378 ($4,066 monthly salary x 12 = $48,792/1950 annual hours = $25.02 hourly rate of pay x 7.5 = $187.66 daily rate of pay; leave days earned while on administrative leave = 18 x $187.66 = $3,378). The office also had to pay related fringe benefits while the employee was on administrative leave with pay.

The approval of administrative leave for an employee without a justifiable business reason resulted in unnecessary costs to the state.

Recommendation

The Director of the Office of Legislative Administration should ensure that only reasonable and necessary administrative leave with pay is granted and that the required request and approval of such leave are properly documented.

Management's Comment

We do not concur with the finding. Legislative Policies and Procedures adopted by the Joint Legislative Services Committee indicate that "Administrative Leave is leave with pay approved by the Speaker . . . at such times that Speaker removes an employee from his/her normal duties for the good of the service or the well being of the employee." In this case the Speaker provided verbal approval for the good of the service and the well being of the employee which is in compliance with adopted policies and procedures. Further we do not concur that "no one questioned whether the decision to continue paying the employee administrative leave was a prudent one." The Director of Administration closely monitored this situation. For the good of the service and the good of the employee continuing the pay was justified until such time that the employee was offered a position in another state agency.

We do concur that written approval from the Speaker was not filed in the Office of Administration and will ensure that any future grants of Administrative Leave are accompanied with appropriate approval documentation.

REVENUES

The objectives of our review of revenues were to determine whether

- revenue transactions were adequately supported, properly approved, and correctly recorded in the accounting system;
- funds collected were deposited timely and intact; and
- revenue records were reconciled with the revenue reports received from the Department of Finance and Administration.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the office's controls over revenues necessary to achieving the audit objectives. We selected a nonstatistical sample of revenue transactions for the period November 1, 2006, through May 31, 2008, and examined supporting documentation to determine whether revenue transactions were adequately supported, properly approved, and correctly recorded in the accounting system and that funds were deposited timely and intact. We also interviewed key personnel to determine whether the office periodically reconciled its revenue records with the reports received from the Department of Finance and Administration.

Based on our interviews, reviews, and testwork, we determined that

- revenue transactions were adequately supported, properly approved, and correctly recorded in the accounting system;
- funds collected were deposited timely and intact; and
- the office did not periodically reconcile its revenue records with the revenue reports received from the Department of Finance and Administration (F&A). The Fiscal/Administrative Analyst stated that since he audits all bank deposits monthly, he assumed the information given to the Department of F&A was accurate and reconciliation was not necessary. We found no differences between the revenue records and the State of Tennessee Accounting and Reporting System.

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.

APPENDICES

ALLOTMENT CODES

Office of Legislative Administration allotment codes:

301.01 General Assembly - Legislative Administrative Services
301.07 House of Representatives
301.08 State Senate
301.13 General Assembly Committees
301.16 General Assembly Support Services
301.17 Tennessee Code Commission

MANAGEMENT'S COMMENT FROM PRIOR AUDIT

Current Finding

As noted in the prior two audits, the Office of Legislative Administration has not established adequate controls over the supplies inventory, which increases the likelihood that theft of inventory may occur and not be detected timely by management

Management's Comment

For the Period July 1, 2001, Through March 31, 2004

We concur that the Office of Legislative Administration did not have adequate controls over the supply room and its content. The Director of Legislative Administration has been instructed to purchase a bar code system for the purpose of establishing a perpetual inventory control system and to assign a staff person not assigned any responsibilities for purchasing or distributing supplies to perform a physical inventory of supplies annually. The Director of Legislative Administration has limited staff authorized to distribute supplies. Staff authorized to distribute supplies do not have responsibility for purchasing or conducting the physical inventory.