# TENNESSEE 200, INC.

## FOR THE YEARS ENDED
## JUNE 30, 1995, AND JUNE 30, 1994

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September 19, 1996

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Martha Ingram, Chairperson
Tennessee 200, Inc.
211 Seventh Avenue North, #403
Nashville, Tennessee 37219

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee 200, Inc., for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The corporation's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
95/105

State of Tennessee

# Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

**Tennessee 200, Inc.**

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

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the corporation's internal control structure; to determine the fairness of the presentation of the financial statements; to determine compliance with laws, regulations, contracts, and grants; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDINGS

**Presigned Checks Used**

The executive director improperly used pre-signed checks to pay for normal business operating expenses from December 1994 to February 1995. The staff was directed by the executive director to use 28 of the 62 presigned checks for expenditures totaling $87,125.85 (page 9).

**Inadequate Internal Controls Over Petty Cash**

The corporation did not have sufficient internal controls to adequately safeguard its petty cash fund, resulting in a shortage of $174.35 (page 10).

**Weak Controls Over Disbursements**

Internal controls over disbursements were inadequate to ensure that purchase orders were prepared, invoices were canceled, and invoices and travel reimbursements were properly approved (page 16).

## Compliance Findings

**Payroll and Personnel Policies and Procedures Not Followed**
Internal controls over payroll and personnel were inadequate to ensure that employees received the proper pay, were qualified for their positions, and were properly evaluated (page 11).

**Inadequate Reporting of Payroll Information**
The corporation did not correctly report quarterly federal taxes and unemployment taxes to federal and state agencies (page 14).

## Opinion on the Financial Statements

The opinion on the financial statements is unqualified.

## Report on the Internal Control Structure

The Report on the Internal Control Structure Performed in Accordance with *Government Auditing Standards* indicated a material weakness:  Checks were improperly presigned, and controls over disbursements were inadequate.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Comptroller of the Treasury, Division of State Audit
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AUDIT REPORT
TENNESSEE 200, INC.
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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## INTRODUCTION

### POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of Tennessee 200, Inc. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes 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.

### OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the corporation's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine the fairness of the presentation of the financial statements;

3. to determine compliance with certain laws, regulations, contracts, and grants; and

4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.**

### SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. Tennessee 200, Inc., forms an integral part of state government and as such has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## BACKGROUND AND ORGANIZATION

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### LEGISLATIVE HISTORY

Tennessee 200, Inc., was established in 1993 under the provisions of Title 4, Chapter 44, *Tennessee Code Annotated*. This statute authorizes the creation of a not-for-profit corporation to raise funds and develop, manage, and implement the plans and programs of the Tennessee Bicentennial Commission. The commission has the authority to name the corporation. The corporation has its own board of directors and may employ support staff and name such advisory groups or steering committees as necessary to assist in the promotion, coordination, and implementation of, and fund-raising for, the comprehensive program for the bicentennial developed by the commission.

The board consists of the members of the 1996 Tennessee Bicentennial Commission, which includes the Comptroller of the Treasury, a representative appointed by the Governor, and a representative of the Attorney General and Reporter. The board appoints a chairperson with the approval of the chair of the commission.

### ORGANIZATION

The governing body of Tennessee 200, Inc., is a 31-member board of directors.

The corporation's programs are carried out by a staff under the supervision of the executive director, who is appointed by the board of directors. The executive director is to report directly to the chairperson and board of directors of Tennessee 200, Inc., and the Gover-nor of Tennessee.

An organization chart for Tennessee 200, Inc., is on the following page.

## OBSERVATIONS AND COMMENTS

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the years ending June 30, 1995, and June 30, 1994, the corpo-ration did not file a compliance report and implementation plan.

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 ground of race, color, or national 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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Plan-ning Office has been abolished. The Office of the Governor is currently evaluating which office in the executive branch will be the new monitoring agency.

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.

## RESULTS OF THE AUDIT

### AUDIT CONCLUSIONS

<u>Internal Control Structure</u>

As part of the audit of Tennessee 200, Inc.'s financial statements for the years ended June 30, 1995, and June 30, 1994, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal con-trol structure is on the following pages. Reportable conditions and a material weakness, along with recommendations and management's responses, are detailed in the findings and recommen-dations, which follow the report on the internal control structure.

<u>Fairness of Financial Statement Presentation</u>

The Division of State Audit has rendered an unqualified opinion on the financial statements of Tennessee 200, Inc. In our opinion, the statements included in this report present fairly, in all material respects, the financial position of the corporation as of June 30, 1995, and June 30, 1994, and the results of its operations for the years then ended. The independent audi-tor's report follows the compliance report.

Compliance with Laws and Regulations

With respect to the items tested, Tennessee 200, Inc., complied with the provisions of laws, regulations, contracts, and grants that may have a material effect on the corporation's financial statements. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

**Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards***

November 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Tennessee 200, Inc., a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated November 21, 1995.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The corporation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the corporation's financial statements for the years ended June 30, 1995, and June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions noted include the following:

- Checks were improperly presigned and used.
- Controls over petty cash were weak.
- Controls over disbursements were inadequate.

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted matters involving the internal control structure and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of Tennessee 200, Inc., for the years ended June 30, 1995, and June 30, 1994. The following material weakness was noted: Checks were improperly presigned, and controls over disbursements were inadequate.

The Honorable W. R. Snodgrass

We also noted other matters involving the internal control structure and its operation that we have reported to the corporation's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

## FINDINGS AND RECOMMENDATIONS

### CHECKS WERE IMPROPERLY PRESIGNED AND USED

1. FINDING:

The executive director of Tennessee 200, Inc., used presigned checks to pay for normal business operating expenses from December 1994 to February 1995. Because the checks had been presigned by the former treasurer of Tennessee 200, Inc., who was also the former fiscal officer of the Governor's Planning Office, the expenses did not receive the simultaneous review and approval required by the corporation's dual-signature control procedure.

Checks drawn on Tennessee 200, Inc.'s operating account are required to have two signatures: one by the executive director and one by the treasurer or other designated signatory. The purpose of the dual-signature process is to obtain two official approvals for payment of expenses prior to the issuance of a check. The dual review helps ensure that the payments are proper and that cash is managed efficiently.

According to the executive director, the treasurer presigned 84 checks for expenses expected to be incurred during a late-1994 promotional campaign called "Path of Volunteers." However, only 22 checks, totaling $5,430, were used. The remaining 62 were not destroyed or voided and were available for use by the executive director.

Tennessee 200, Inc., staff were directed by the executive director to use 28 of the remaining 62 checks for expenditures totaling $87,125.85. Included was a $200 check made payable to the petty cash fund. The former business manager on staff during the audit period had signed the executive director's name on the check and cashed it at a local bank. The funds were then allegedly deposited into the petty cash fund. The remaining 34 checks were voided in March or April 1995 by the former business man-ager on the advice of Kraft CPAs, an accounting firm hired by Tennessee 200, Inc., to perform monthly accounting services.

RECOMMENDATION:

Management should not presign checks. Checks should be signed at the time vouchers are reviewed and approved for payment.

MANAGEMENT'S COMMENT:

We concur. No checks other than those mentioned in the finding were presigned. As mentioned, the checks were presigned for a specific purpose due to the need to expedite payments. Due to the need to expedite payment, others were used during the transition to a new treasurer and account signatory. Since April 1995 checks are signed only after the expense is approved by each signer.

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## CONTROLS OVER PETTY CASH WERE WEAK

2. FINDING:

Tennessee 200, Inc., did not have sufficient internal controls to adequately safeguard its petty cash fund. During the review of the petty cash fund, the following discrepancies were noted:

- The petty cash fund was not maintained on an imprest basis: the cash on hand plus reimbursed receipts did not equal the authorized beginning balance. The petty cash fund was maintained by the former business manager, who also had access to presigned checks.

- The vouchers corresponding to 14 petty cash voucher numbers could not be located. Because of this absence, there was no documentation to support the expenses recorded on the petty cash schedule.

- There was no documentation that the fund had ever been reconciled with the general ledger. Periodic reconciliations are necessary for the prompt identification and resolution of discrepancies.

- The petty cash balance did not agree with the general ledger because $100 of the petty cash deposits were not recorded in the general ledger.

- Petty cash counts had never been made by an independent person who does not have the ability to obtain funds for personal use or to manipulate the accounting records.

- The running total of cash on the petty cash schedule was not accurately computed because of posting errors, transposition of numbers, failure to post deposits, and failure to correctly perform simple mathematical calculations.

These discrepancies occurred because of the lack of internal controls, particularly the failure of the executive director to supervise and review the activities of the former business manager. The auditors corrected for the errors noted above and determined that the petty cash fund was short by $174.35 at April 10, 1995.

RECOMMENDATION:

Based on a review of the petty cash expenditures and in consideration of the small size of Tennessee 200, Inc.'s staff, the petty cash fund should be eliminated to decrease the potential of cash mismanagement. The funds remaining in petty cash should be transferred to the corporation's operating account. An expense reimbursement form should be completed and submitted to the executive director or her designee by any employee wishing to obtain reimbursement for expenses incurred while performing duties.

MANAGEMENT'S COMMENT:

We concur. The Executive Director did inquire with the business manager on several occasions regarding a petty cash reconciliation, but one was never prepared. The petty cash fund was established to handle small-dollar purchases and expenditures. It has been deemed unnecessary in the current operations and has now been eliminated.

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## TENNESSEE 200, INC., FAILED TO COMPLY WITH PAYROLL AND PERSONNEL POLICIES AND PROCEDURES

3. FINDING:

Tennessee 200, Inc., failed to comply with its payroll and personnel policies and procedures. Testwork and a review of controls over payroll and personnel disclosed several problems:

a. Performance evaluations were not completed in accordance with Tennessee 200, Inc.'s procedures. The employee manual states that "annual reviews are done one year from the employee's date of hire." No performance evalua-tions were performed for the three individuals who had been employed for a year or more. The executive director is responsible for completing the evaluations. Regular evaluations are needed to maintain and improve job performance and to properly consider individuals for merit increases and promotions.
b. Verification of references and information on the resumes of employees was not documented in the employees' personnel files. If reference checks and verification of educational backgrounds are not documented, unqualified individuals could be hired.

c. Tennessee 200, Inc., did not maintain documentation for all deductions from gross pay. For the six employees who participated in the group insurance program, deductions were made from the employees' gross pay. However, only one of the employee files reviewed (16.7%) contained a payroll deduction authorization form. Employees' net pay may be calculated inaccurately if deduction authorizations are not maintained showing what deductions should be made.

d. None of the ten employee files tested contained a "Policy Acknowledgment Form" documenting that the employee had read and understood the employment policies of Tennessee 200, Inc. The employee manual contains a copy of the form and states that the form is to be completed and filed in the employee's personnel folder.

e. Tennessee 200, Inc., has not ensured that all employees submit approved request-for-leave forms for all annual, sick, and compensatory leave. The employee manual states that employees "must first complete a time-off request and have it signed by their immediate supervisor," the executive director. In addition, the executive director apparently did not submit a leave form for a week's vacation taken during December 1994. The executive director said that she could not remember if she had completed a leave slip.

f. Vacation and sick leave balances were maintained in increments of whole and half days rather than hours. Employees could arrive late or leave early by nearly half a day without submitting a leave request and having their leave balance properly adjusted.

g. Tennessee 200, Inc., employees are not required to complete monthly time sheets to record daily attendance and accumulated and used leave, although the employee manual states that they must. In addition, Tennessee 200, Inc.'s policies did not require a comparison of time sheets with leave slips to determine whether all leave was reported accurately. The employee manual states that the monthly time sheet must be signed by the immediate supervisor and given to the business manager at the end of the month. The manual also states that a record of leave should be kept in the employee's file.

h. Compensatory time was not documented as being earned or authorized. Because monthly time sheets were not completed by employees, it could not be determined whether the overtime used by personnel in place of annual leave was earned or authorized.

i. Payroll and personnel duties were not segregated. The business manager handled both leave and payroll information for each employee.

j. The general ledger maintained by the former business manager did not agree with the general ledger prepared by Kraft CPAs. Representatives of Kraft

CPAs reviewed the business manager's work and determined that payroll information had not been accurately reported by the business manager. Therefore, an adjusting entry of $5,133.23 was made by Kraft CPAs to the business manager general ledger for the year ended June 30, 1994, to increase the payroll account balances from net to gross wages.

RECOMMENDATION:

Management should ensure compliance with payroll and personnel policies and procedures. Performance evaluations on all employees should be completed annually. Verification of references and resume information should be documented. Documentation should be maintained showing authorizations for all deductions from employees' gross pay. Policy Acknowledgment forms should be completed by employees to document that they have read the employee manual and understand the procedures.

To help ensure that leave accumulation and usage are reported accurately, the appropriate personnel should approve all leave, and employees should submit a leave slip for all leave. Vacation and sick leave should be reported in hourly increments. Monthly time sheets should be maintained by each employee, and compensatory time should be documented. Although the executive director does not have an immediate supervisor at the agency, she should still take care to ensure that her time and attendance records are accurate.

Someone independent of the payroll process should compare time sheets with leave slips. Any overtime worked should be adequately documented as earned and should be properly approved and authorized by the executive director.

Payroll and personnel duties should be segregated to the greatest extent possible. The accounting information prepared and submitted to Kraft CPAs by Tennessee 200, Inc., should agree with the general ledger prepared by Kraft CPAs to prevent inaccurate reporting of payroll information and other items.

MANAGEMENT'S COMMENT:

We concur in part. The Tennessee 200, Inc., policies and procedures manual was developed with guidance from the Department of Finance and Administration. When developed, these policies and procedures appeared reasonable and within the scope of operations for the organization. However, the temporary status and project-orientation of Tennessee 200, Inc., produced a need to amend the procedures once the organization was fully operational. The policy manual should have been amended and resubmitted to the board for approval to reflect the extraordinary nature and purpose of the organization.

Tennessee 200, Inc., began operations with an Executive Director and assistant, both hired by a search committee of the board of directors. A Statewide Projects Director was subsequently hired. The employee hired for this position was a five-year state employee and was recommended by the Governor's Planning Office Director and Commissioner of Tourism. The Business Manager position was advertised and references were checked and on file. The other four employees hired during the audit time frame presented resumes, and references were checked by the Statewide Projects Director.

Other infractions listed are a reflection of the extraordinary nature of the organization and the project-based work environment.

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## STATE AND FEDERAL FORMS REPORTING PAYROLL INFORMATION WERE INACCURATE

4. FINDING:

The former business manager did not always correctly prepare the IRS Form 941, "Employer's Quarterly Federal Tax Return," and the tax return did not always agree with the corporation's accounting records. The former business manager also did not properly prepare the Tennessee Department of Employment Security's "Report of Employee Wages" which reports the corporation's share of unemployment taxes. The wages reported on the 941 tax returns did not agree with the payroll records, the general ledger, and the W-2 forms for each of the reported quarters. The W-2 forms, payroll records, and the general ledger report the correct wages. Specifically, the following problems were noted with IRS Form 941s:

a. The total wages reported on the 941 returns did not agree with the quarterly payroll reports for the four quarters ended June 30, 1994; September 30, 1994; December 31, 1994; and March 31, 1995. Total wages were under-stated by $582.83.

b. The total federal income taxes withheld was incorrectly reported on the 941 returns for the four quarters ended June 30, 1994; September 30, 1994; December 31, 1994; and March 31, 1995. As a result, the corporation's reported federal withholding tax liability was understated by $27.46. In addition, total Medicare taxes for these same quarters were understated by $16.89 and total Social Security taxes by $72.25.

c. The monthly deposit amounts were incorrectly reported on the 941 returns for the three quarters ended June 30, 1994; September 30, 1994; and December 31, 1994. As a result, deposits were overstated by $282.14.

d. Wages paid to a temporary employee hired during the quarter ended June 30, 1994, were not reported to the IRS on the 941 return. In addition, a W-2 was not issued to the employee. Taxes withheld totaled $59.18 ($34.00 for federal withholding, $4.78 for Medicare, and $20.40 for Social Security). According to *Internal Revenue Code*, Section 6656, failure to report wages for which taxes were withheld could result in a penalty between 2% and 15% of the understatement, depending on the lateness of the payment. In addition, the corporation still owes state employment taxes of $4.94.

As a result of these errors in reporting the tax information on the 941 returns, a net overpayment of federal taxes in the amount of $398.56 was made. The overpayment will be reduced by future liabilities of federal taxes. Amended Form 941's have been filed by the corporation.

For the State of Tennessee, only the first $7,000 of wages for each employee is considered in the calculation of the state unemployment taxes. In reporting the corporation's liability for state unemployment premiums, the former business manager did not correctly apply this guideline for the three quarters ended June 30, 1994; September 30, 1994; and December 31, 1994. These errors resulted in a $1,110.39 overpayment of unemployment premiums to the state. The overpayment is being reduced by future liabilities for state unemployment premiums.

The former business manager's inadequate recordkeeping and her failure to understand how to properly complete IRS Form 941 and the Statement of Employee's Wages contributed to the problems noted. The failure to correctly prepare returns, properly compute taxes, and promptly pay all liabilities could result in an assessment of fines and penalties by the IRS.

## RECOMMENDATION:

The IRS Form 941 quarterly tax returns should be correctly prepared, taxes should be properly computed, and payments to the Internal Revenue Service should be promptly made. Management should ensure that the amounts reported on the returns agree with the payroll records, general ledger, and W-2 forms and that complete docu-mentation supporting any adjustments to the payroll records is maintained.

MANAGEMENT'S COMMENT:

We concur. As noted in the finding, management was aware of the business manager's inaccurate recordkeeping and was in the process of resolving that problem with members of the Tennessee 200, Inc., Board of Directors as well as Kraft Bros. CPAs. During this time period, Tennessee 200, Inc., was concurrently involved in its two-year strategic planning and establishment of a computerized accounting system. The former business manger has subsequently left the corporation. Amended returns have been filed. Payroll returns and reports are now prepared from the accounting records and are reconciled to the general ledger.

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## CONTROLS OVER DISBURSEMENTS WERE INADEQUATE

5. FINDING:

The corporation's controls over disbursements were inadequate, failing to ensure the proper processing of disbursements. Problems were noted in the areas of purchasing, travel, and contracts. A review of 216 expenditure transactions disclosed the following problems:

Purchasing

- Thirty-one of 82 applicable purchases (38%) did not comply with the corporation's purchasing policies and procedures.

- Vendor files for 11 of 130 applicable payments (8%) did not contain all invoices or similar documents to support payments. Unsupported payments totaled $25,929.43.

- Forty-two of 142 applicable payments (30%) were not approved by an authorized person. Unapproved payments totaled $180,305.96.

- Ninety-two of 140 applicable invoices (66%) were not canceled to prevent reuse.

- Vendor files for 28 of 34 applicable payments (82.4%) did not contain purchase orders to support the purchases.

- The purchasing and accounting duties were not properly segregated. One person initiated the purchases and recorded the purchases on the accounting system. Proper approval of transactions would be a compensating control; however, as noted above, payments were not properly approved.

Travel Claims

- The executive director had not approved 18 of 84 travel claims tested (21%). One claim had not been signed by the claimant or the executive director. Unauthorized travel claims totaled $3,511.33.

- Nine of 84 claims (11%) were charged to the wrong account code.

- On 25 of 61 applicable claims (41%), employees listed round-trip mileage on one line of the travel claim rather than claiming point-to-point mileage and vicinity mileage separately.

- Six of 69 applicable travel reimbursements (9%) did not have sufficient receipts attached.

- For 15 of 53 applicable claims (28%), reimbursements for meals and lodging ex-ceeded the established rates.

- The corporation did not have policies or procedures for travel advances.

Contracts

- The corporation did not have written policies and procedures to identify or document potential conflicts of interest.

- Two payments were made 24 and 34 days late.

- Sufficient supporting documentation was not present for two reimbursements.

- Several telephone expenses outside the Tennessee area and one expense outside the country were reimbursed, but no explanation was provided to justify how the calls related to the corporation.

- The corporation had no procedures for monitoring telephone billing for personal long-distance calls.

Because it is critical that the corporation remain in sound financial condition, effective controls over disbursements are essential to help prevent any misuse of funds. Errors and irregularities could occur if controls are not improved.

RECOMMENDATION:

Tennessee 200, Inc., should strengthen controls over disbursements and adequately segregate duties. Purchase orders should be prepared in accordance with the purchasing procedures and completed at the time goods or services are ordered. Vouchers and invoices should be carefully examined and approved before payment is initiated, and invoices should be canceled to prevent duplicate payment. Travel claims should be signed by the claimant and approved by the executive director. All personnel should comply with the Comprehensive Travel Regulations. Expenses claimed should be adequately supported with corresponding receipts. Tennessee 200, Inc., should establish written policies and procedures to identify or document potential conflicts of interest in awarding, approving, and overseeing contracts.

MANAGEMENT'S COMMENT:

We concur. The following corrective measures are in place. Purchases—1) Documentation supporting purchases has been strengthened; 2) purchases are initiated by project managers and invoices are subsequently approved by the project initiator and executive director; and 3) invoices are canceled to prevent reuse. Travel claims—All travel now adheres to the state travel regulations rather than using the travel regulations only as a guide. Expenses outside the guidelines are thoroughly explained. Contracts—contract guidelines were prepared and adopted by the board. General contracts were developed with assistance from the Comptroller of the Treasury's office and used for vendors and contract employees.

**Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards***

November 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Tennessee 200, Inc., a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated November 21, 1995.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Tennessee 200, Inc., is the responsibility of the corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the corporation's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

## Independent Auditor’s Report

November 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee  37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Tennessee 200, Inc., a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the corporation’s management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee 200, Inc., as of June 30, 1995, and June 30, 1994, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, reports dated November 21, 1995, were issued regarding our consideration of the corporation's internal control structure and its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

Tennessee 200, Inc., was authorized in 1993 in accordance with Title 4, Chapter 44, of *Tennessee Code Annotated* as "a not-for-profit corporation to raise funds, develop, manage and implement the plans and programs of the [Tennessee Bicentennial] Commission relating to the commemoration of Tennessee's bicentennial." The Tennessee Bicentennial Commission shall cease to exist on June 30, 1997. The corporation is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### B. Basis of Accounting and Presentation and Measurement Focus

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial records of the corporation are maintained on the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

### C. Compensated Absences

The agency's liability for accumulated unpaid annual leave is reported on the accompanying balance sheets. There is no liability in the accompanying financial statements for unpaid accumulated sick leave since it is the corporation's policy to record the cost of sick leave only when paid. See Note 5 for disclosure of the amount of this contingency.

### D. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**E. Investments**

Investments are stated at cost or amortized cost.

## NOTE 2. CASH

This classification includes bank demand deposits and petty cash on hand. At June 30, 1995, cash consisted of $93,358.24 in bank accounts and $182.00 of petty cash on hand. At June 30, 1994, cash consisted of $1,316,468.46 in bank accounts and $82.25 of petty cash on hand.

## NOTE 3. DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the corporation. Category 1 consists of deposits that are insured or collateralized with securities held by the corporation or by its agent in the corporation's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the corporation's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the corporation's name.

At June 30, 1995, the carrying amount of the corporation's deposits was $93,358.24, and the bank balance including accrued interest was $143,255.83. Of the bank balance, $100,000.00 was category 1, and $43,255.83 was category 3. At June 30, 1994, the carrying amount of the corporation's deposits was $1,316,468.46, and the bank balance including accrued interest was $1,324,822.09. Of the bank balance, $100,000.00 was category 1, and $1,224,822.09 was category 3.

## NOTE 4. INVESTMENTS

The corporation invests funds in a money market mutual fund and in short-term instruments (those with original maturities of three months to one year from date of purchase) which may include the highest rated commercial paper and U. S. government obligations. At June 30, 1995, the investment classification consisted of commercial paper with a carrying value of $1,585,942.90 and a market value of

$1,596,000.00, and the money market mutual fund of $462,203.19. Investments were also made in U. S. government obligations during the fiscal year.

Investments are required to be categorized according to the level of credit risk associated with the custodial arrangements. Category 1 includes investments that are insured or registered, or for which securities are held by the corporation or its agent in the corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the corporation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the corporation's name. Tennessee 200, Inc.'s investments at June 30, 1995, were category 1. The money market mutual fund is not categorized as to the level of credit risk associated with custodial arrangements.

**NOTE 5. CONTINGENCIES**

Sick Leave - The corporation records the cost of sick leave only when paid. Generally, since sick leave is paid only when an employee is absent because of illness, injury, or related family death, there is no liability in the accompanying financial statements for unpaid accumulated sick leave at June 30. The amount of unused sick leave was $2,134.46 at June 30, 1995, and $3,065.78 at June 30, 1994.

**NOTE 6. RISK MANAGEMENT**

The corporation is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; and bodily injuries to employees. Commercial insurance is carried for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance in either of the past two fiscal years.

The corporation has elected to provide health coverage for its employees through a health plan for eligible local government and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, though a structured managed care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separate estab-lished fund. To this fund, premiums of participating units are deposited and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80 percent of the total premiums. The employees are responsible for the remaining 20 percent of the total premiums. Claims are administered by Blue Cross and Blue Shield of Tennessee. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims.

## NOTE 7. OPERATING LEASES

The corporation leases office space and equipment to carry out its activities. Total expenditures under operating leases for space and equipment were $36,934.98 for the year ended June 30, 1995. Two of the leases are noncancelable and one is cancelable at the lessee's option.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 1995:

| Year Ending June 30 | |
|---|---|
| 1996 | $ 6,175.20 |
| 1997 | 4,577.15 |
| Total minimum payments required | $10,752.35 |

**NOTE 8. PLEDGES**

The corporation has received pledges from various corporations in support of the state's bicentennial celebration. Pledges totaling $554,335.00 are due to be collected over the next fiscal year. It is not practicable to estimate the net realizable value of such pledges.