

**TENNESSEE ARTS COMMISSION**

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

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August 15, 1996

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. Bennett Tarleton, Executive Director  
404 James Robertson Parkway, Suite 160  
Nashville, Tennessee 37243-0780

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Tennessee Arts Commission for the years ended June 30, 1995, and June 30, 1994.

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 commission's administration 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  
96/081

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit

**Tennessee Arts Commission**

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 commission's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDINGS

### **Grant Subrecipients Not Systematically Monitored\***

No system is in place to ensure that grant subrecipients will be monitored (page 20).

### **Tennessee State Museum Inventory of Artifacts and Antiques Not Maintained\*\***

The museum does not maintain a complete and correctly valued inventory listing of its antiques and artifacts (page 13).

### **Equipment Controls Inadequate\*\***

Loss or theft of equipment from the museum is not always promptly reported, and property records are not properly updated (page 17).

### **Tennessee State Museum Gift Shop Inventory and Cash Receipts Controls Inadequate**

No one outside of the gift shop reviews sales or inventory documents (page 12).

### **Ineffective Commission Management Practices**

The commission is not operated in a manner to ensure compliance with laws, regulations, and grant provisions and to ensure an appropriate system of internal controls (page 8).

## COMPLIANCE FINDINGS

### **The Commission Failed to React to Museum's Failure to Provide Financial Integrity Act Report Information\*\***

The commission did not file a report of internal controls for 1993 or 1994, and the report for 1995 was late (page 16).

### **The Commission Did Not Draw Down Federal Funds Timely\***

The commission did not always request federal drawdowns on a regular basis as required by the Department of Finance and Administration (page 14).

### **Tennessee State Museum Does Not Deposit All Donation Receipts**

Receipts from donation boxes were expended rather than deposited (page 10).

### **Performance Evaluations Not Performed Timely\*\***

Annual performance evaluations for museum staff are not performed in a timely manner (page 19).

\* This finding is repeated from the prior audit.

\*\* This finding is repeated from prior audits.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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AUDIT REPORT  
TENNESSEE ARTS COMMISSION  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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TENNESSEE ARTS COMMISSION  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a report on the compliance audit of the Tennessee Arts Commission. 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 commission’s internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants;
2. to test compliance with certain laws, regulations, contracts, or grants; and
3. to recommend appropriate actions to correct any deficiencies.

**SCOPE OF THE AUDIT**

The audit is limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

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## BACKGROUND AND ORGANIZATION

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### LEGISLATIVE HISTORY

The Tennessee Arts Commission was established under Section 4-20-101, *Tennessee Code Annotated*, and the Tennessee State Museum, under Section 4-12-101. The Tennessee Arts Commission has been given the responsibility

1. to stimulate and encourage the study and presentation of the performing, visual, and literary arts and the public's participation in them;
2. to encourage participation in, appreciation of, and education in the arts;
3. to take actions necessary and appropriate to encourage public interest in the cultural heritage of the state and to expand the cultural resources; and
4. to encourage excellence and assist freedom of artistic expression essential to the well-being of the arts.

To perform its objectives, the commission has the power to contract for cooperative efforts with local and regional associations and to accept gifts, contributions, and unrestricted funds. As an official agency of the State of Tennessee, the commission receives and disburses federal funds available for arts-related programs. The commission is also responsible for supervising the administration of the Tennessee State Museum.

### ORGANIZATION

The commission's 15 members are appointed by the Governor and are to be broadly representative of all fields of the arts. At least one member, but not more than two, are appointed from each United States congressional district in Tennessee. Terms of appointment are five years. Members of the commission who complete a five-year term cannot be reappointed until a full year has passed. The commission is assisted in its efforts by advisory panels composed of interested citizens and artists. An executive director is employed as administrative officer of the commission and in turn employs all other staff members needed for operations. An organization chart of the commission is on the following page.



The Tennessee Arts Commission is part of the general fund of the State of Tennessee and is responsible for the following divisions and allotment codes:

316.25	Tennessee Arts Commission
316.27	Tennessee State Museum

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### PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The commission filed its report with the Department of Audit on October 12, 1994. A follow-up of all prior audit findings was conducted as part of the current audit.

### RESOLVED AUDIT FINDINGS

The current audit disclosed that the commission has corrected previous audit findings concerning controls over cash transactions, controls over commissioners' travel claims, and the failure of commission members and staff to use the state's travel agency to purchase airline tickets.

### REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning maintenance of an inventory of the museum's antiques and artifacts, compliance with the Financial Integrity Act of 1983, systematic monitoring of subrecipients, controls over Tennessee State Museum equipment, timely performance evaluations of museum staff, and procedures to request federal funds. These findings have not been resolved and are repeated in this report.

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### OBSERVATION AND COMMENTS

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*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 fiscal year 1995, the commission filed its compliance report and implementation plan on June 30, 1995, and for fiscal year 1994, on July 29, 1994.

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 the Title VI compliance and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning 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.

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## RESULTS OF THE AUDIT

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### **AUDIT CONCLUSIONS**

#### Internal Control Structure

We considered the internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants. The report on the internal control structure is on the following pages. Certain deficiencies, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure.

#### Compliance with Laws and Regulations

The commission complied with the provisions of certain laws, regulations, contracts, or grants except for certain instances of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

## **Report on the Internal Control Structure**

February 22, 1996

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

Dear Mr. Snodgrass:

We have applied procedures to test the Tennessee Arts Commission's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated February 22, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

We considered the commission's internal control structure in order to determine our procedures for the purpose of testing the commission's compliance with certain laws, regulations, contracts, or grants and not to provide assurance on the internal control structure.

The commission'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. 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.

The Honorable W. R. Snodgrass  
February 22, 1996  
Page Two

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the commission's ability to comply with laws, regulations, contracts, or grants. However, we did note the following deficiencies:

- The commission's management practices are ineffective.
- As in 1985, the Tennessee State Museum still does not have a complete inventory of its artifacts and antiques.
- The commission has not systematically monitored subrecipients.
- The Tennessee State Museum Gift Shop lacks adequate controls over merchandise inventory and sales records.
- As noted in 1988, 1989, 1990, 1991, 1992, and 1993, the Tennessee State Museum's controls over equipment have been inadequate.

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

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

This report is intended for the information of the General Assembly of the State of Tennessee 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

### THE COMMISSION'S MANAGEMENT PRACTICES ARE INEFFECTIVE

#### 1. FINDING:

The Tennessee Arts Commission is not operated in a manner to ensure compliance with laws, regulations, and grant provisions and to ensure an appropriate system of internal controls. The commission is responsible for overseeing some of Tennessee's priceless and irreplaceable treasures; therefore, a sound internal control structure should be in place to safeguard the state's assets.

The commission has assigned management responsibility to an executive director whose function is to establish a sound organizational structure so that work may be accomplished efficiently. However, the findings in this report reflect the need for more effective oversight from the commission. Many of these findings have been repeated for numerous years.

Findings 2, 5, 6, and 8 represent the commission's failure to comply with laws, regulations, and grant provisions: the commission has not deposited all donation-box receipts, has not drawn federal funds timely, has not filed Financial Integrity Act reports, and has not performed timely staff evaluations. Findings 3, 4, 7, and 9 involve inadequate controls over the state museum's inventory of artifacts and antiques, over equipment, and over the gift shop's inventory and cash receipts. Controls were also insufficient to provide adequate monitoring of grants.

The commission's oversight responsibility demands that commission members take a more active role in the general operations of the commission and the state museum.

#### RECOMMENDATION:

The commission should thoughtfully consider all recommendations presented in this report. The commission should ensure that the executive director and his staff comply with all laws, regulations, and grant provisions and promptly establish and/or improve the internal controls involving all areas noted in the findings in this report.

As noted in finding 8, performance evaluations have not been performed in a timely manner for all staff. The responsibility for implementing many of these findings belongs to members of the upper staff who are exempt from performance evaluations. However, the commission should consider the option of conducting performance evaluations on these individuals to ensure that all audit findings are implemented. The commission should also consider appointing a task force of its members to monitor the implementation of the audit findings.

MANAGEMENT'S COMMENT:

We concur that the commission's management practices are ineffective in relation to the Division of State Audit's standards for depositing of donation-box receipts, timely drawdown of federal funds, filing of Financial Integrity Act reports, timely staff evaluations, monitoring of grants, controls over the state museum's inventory of artifacts and antiques, its equipment, and its gift shop inventory and cash receipts.

However, the commission believes it complies with a myriad of state and federal laws, regulations, and grant provisions in a timely and satisfactory manner and is not operating *ultra vires*.

The commission will promptly establish and/or improve the internal controls involved in the areas noted above in the following ways:

1. The executive director has requested technical assistance from the Tennessee Department of Finance and Administration to establish a focus group to improve the commission's internal controls and to recommend procedures that will successfully address the findings identified in this report. Commission personnel to be involved include the commission's assistant director, the director of administrative services, the state museum executive director, and the museum's deputy director. The focus group will meet at least once a month or more as needed.
2. Until these matters are addressed in a satisfactory manner, the executive director will require quarterly reports from each member of the agency's management team (executive director, assistant director, director of administrative services, and executive director of the state museum) about each area of concern.

The assistant director will report on the monitoring of grants and complete those portions of the Financial Integrity Act related to the Arts Program.

The director of administrative services will report on the timely drawdown of federal funds, and (with the executive director of the state museum) the filing of Financial Integrity reports and timely staff evaluations.

The executive director of the state museum also will report on the depositing of donation-box receipts and the museum's controls over inventory of artifacts and antiques, equipment, and gift shop inventory and cash receipts.

3. These reports will become part of the executive director's quarterly report to the members of the commission.

4. Matters related to the state museum will be considered quarterly by the members of the commission's State Museum Committee, chaired by a member of the commission.
5. Because members of the commission are not state employees, they cannot complete Tennessee Department of Personnel performance evaluation forms on state employees. The staff members with executive service status are reviewed regularly for their total performance, not just those items of concern to the Division of State Audit; the executive director is reviewed by the commission annually on a form which is based on his job as described in the commission's *Policies and Procedures Manual*.

Those evaluations, like all personnel matters, are confidential, but the form used by the members of the commission is available on request to the Division of State Audit.

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THE TENNESSEE STATE MUSEUM HAS NOT DEPOSITED  
ALL DONATION-BOX RECEIPTS

2. FINDING:

The Tennessee State Museum Gift Shop has not deposited all donation-box receipts as departmental revenue of the museum as is required by state law. In some cases, the donation-box receipts have been used to purchase gifts for museum guests. During the audit period, the museum director and the deputy director inappropriately authorized \$558.25 in the purchase of gifts for various guests of the state.

In addition, museum staff have stated that other undocumented purchases have been made. These statements are supported by a lack of any donation deposits between August 1993 and July 1994, between July 1994 and November 1994, and between November 1994 and April 1995. Since access to the donation boxes is unrestricted and because donations fluctuate, it is not possible to estimate the amount of undocumented or unauthorized purchases. Furthermore, forty dollars of the donation-box receipts have been used to establish an unauthorized change fund for the museum gift shop.

Section 4-12-102 (2) of *Tennessee Code Annotated* states:

The museum director shall install and maintain suitable containers for the collection of small cash donations to the state museum; the funds so collected shall be receipted and deposited as departmental revenue of the museum with the same budgetary and accounting controls as other funds of the museum. Expenditure of funds so collected shall be for the furtherance of the objectives of the museum's programs and shall be made under the same restrictions and controls as other expenditures of the museum.

As stated in Section 9-4-301, *Tennessee Code Annotated*, all funds collected or received shall be deposited "immediately into the Treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized" by the Commissioner of the Department of Finance and Administration. Furthermore, such deposits "shall be made without any deductions on account of salaries, fees, costs, charges, expenses, refunds, claims, or demands of any description whatsoever."

Failure to deposit departmental revenue understates revenues and expenditures and could lead to theft of funds or unauthorized purchases.

RECOMMENDATION:

The museum director should develop procedures to ensure that two employees empty the donations boxes, count cash, and sign a log documenting the amount taken from the box. The cash should be immediately deposited. All future purchases should be made through the state purchasing system. The museum director should also immediately discontinue the use of unauthorized petty cash funds. The forty dollars taken from the donation box for petty cash purposes should be deposited immediately.

MANAGEMENT'S COMMENT:

We concur. The commission's executive director has directed the executive director of the museum to work with a focus group (see finding 1) to develop policies and procedures ensuring that two museum employees empty the donation boxes, count the cash, sign a log documenting the amount collected, and deposit all receipts in accordance with *Tennessee Code Annotated* 4-12-102 and Department of Finance and Administration Policy Statement 25. These procedures will ensure timely deposit and adequate safeguarding of funds. In addition, the museum's executive director has been directed to ensure that all future purchases will be made through the state purchasing system. The commission is making a request to increase the "till amount" in accordance with

Department of Finance and Administration Policy Statement 7. The commission will develop proper procedures and submit them in writing by December 31, 1996.

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THE TENNESSEE STATE MUSEUM GIFT SHOP LACKS ADEQUATE  
CONTROLS OVER MERCHANDISE INVENTORY AND SALES RECORDS

3. FINDING:

The Tennessee State Museum Gift Shop lacks adequate controls over merchandise inventory and sales receipts. Duties in the gift shop, which is operated as a service to museum visitors, are not adequately segregated: the store supervisor and one employee have access to the inventory, inventory records, cash drawer, and sales records. Other museum employees annually count the store inventory; however, no one other than the store supervisor reviews discrepancies in the counts.

Testwork was performed on inventory counts and physical inventory. In nine of ten cases (90%), the inventory card balances could not be reconciled with physical counts. In addition, staff failed to deduct from the inventory sales which were to be billed to the Tennessee State Museum Foundation.

Good internal controls require that duties associated with custody of inventory, purchasing, receiving and inspecting, and recordkeeping be segregated. The lack of segregation, or close management oversight when segregation is not possible, could result in the undetected theft of merchandise or cash from the gift shop.

RECOMMENDATION:

The commission's executive director should ensure a gift shop inventory is performed and assign to someone independent of the gift shop responsibility for reconciling the inventory counts with the inventory cards. The executive director should review the gift shop procedures to enhance segregation of duties. At a minimum, a person who is independent of the gift shop and has no access to inventory or sales records should be managing inventory.

MANAGEMENT'S COMMENT:

We concur. The museum's executive director will ensure that duties are adequately segregated or that compensating controls are implemented to reduce the possibility of improprieties. The focus group (see finding 1) will work with the museum's executive director on the design of internal controls and the development of procedures to

ensure that inventories are properly safeguarded and accounted for. The museum's executive director will submit a copy of this written policy by October 31, 1996.

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AS IN 1985, THE TENNESSEE STATE MUSEUM STILL DOES NOT HAVE A  
COMPLETE INVENTORY OF ITS ARTIFACTS AND ANTIQUES

4. FINDING:

As stated in the audit reports since 1985, the Tennessee State Museum does not have a complete and correctly valued inventory listing of its artifacts and antiques. Although the museum is exempt from inventorying its collection under the rules established by the Department of General Services, good internal controls mandate that a listing of all items be maintained.

The *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1400.113, requires that donated items be recorded at their estimated value at the time of donation. If an accurate inventory listing is not maintained, the general fixed assets account group presented in the *Tennessee Comprehensive Annual Financial Report* may not properly reflect the museum's inventory balance. Also, an inaccurate inventory listing prevents management from determining whether insurance coverage is adequate.

In response to the prior audit finding, management stated that a computerized inventory system had been installed, a full-time computer systems administrator had been assigned, and four data-entry personnel in the Office for Information Resources in the Department of Finance and Administration had been assigned to the museum. As of fiscal year 1995, staff had not entered all items into the computerized inventory system.

RECOMMENDATION:

The museum director should establish procedures to ensure that a listing of all artifacts and antiques is maintained. These procedures should include the use of the computerized inventory system and additional staff to ensure proper controls are maintained over inventory.

MANAGEMENT'S COMMENT:

We concur, but we wish to have noted that the museum has been working towards the goal of completing a comprehensive inventory of the museum's collections. A systems analysis by OIR personnel was completed and requests for funding were made to the General Assembly over a period of years; OIR agreed to provide the funds if a full-time systems administrator was named. This occurred in July 1992; an implementation plan was prepared and approved in March 1992; the collections management system was installed in November 1992. Data conversion of this system began in October 1993 with completion occurring at the end of June 1995.

State funds were requested for fiscal year 1997 to provide personnel to undertake the inventory. The museum anticipates that a complete and total inventory will begin during fiscal year 1997. This work includes hiring six contract workers (two supervisors, four workers) who will perform the inventory under the direction of the museum's collections department staff. Also to be included in the inventory is an imaging component that will provide a visual reference of the artifacts. The museum believes the inventory process will take at least three years to complete. Upon completion, the museum will have a complete inventory ("what" and "where") of its 85,000 artifacts.

The revaluation of artifacts is an ongoing procedure that has been established by the museum's collections department. As object records are encountered, museum curators are required to update the value of artifacts. The department has also established guidelines for the accession of artifacts on-line, including a requirement that a fair market value be set for each artifact when cataloging of the artifact takes place.

The inventory procedures for artifacts and antiques will be reviewed by the focus group (see finding 1): the recording of all items noting location, condition, description, and cost (if indeterminable, the estimated value at time of donation will be recorded).

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FOR THE FOURTH YEAR, THE COMMISSION DID NOT DRAW DOWN  
FEDERAL FUNDS TIMELY AS REQUIRED BY THE DEPARTMENT OF  
FINANCE AND ADMINISTRATION'S POLICY STATEMENT 20

5. FINDING:

As stated in the prior audit, the Tennessee Arts Commission did not comply with the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues." Policy 20 was issued in response to the Cash Management Improvement Act of 1990 and was developed to provide uniform procedures to ensure that various state institutions are accountable for state and federal funding received.

Management concurred with the prior audit finding and stated that they believed the commission was now implementing procedures established by Policy 20.

Policy 20, Component 01, Section 02, 20-01-204, states:

Federal drawdowns must be made utilizing the STARS grant module (available on STARS report Number 832) unless the grant language specifies use of check clearance patterns. Unless disallowed by Federal law or grant agreement, all drawdowns must be performed at least weekly.

Although the commission is now utilizing the STARS grant module to make federal drawdowns, the drawdowns continue to be made quarterly rather than weekly during periods of grant expenditures. No exception request has been made to or approved by the chief of the Division of Accounts, Department of Finance and Administration, to exempt the commission from weekly drawdowns.

If funds are not requested in a timely manner, state funds must be used to cover the related expenditures when federal funds are not available. In addition, when funds are not requested in a timely manner, interest is lost.

RECOMMENDATION:

The commission should ensure that the executive director draws down federal funds timely in compliance with the Department of Finance and Administration's Policy Statement 20.

MANAGEMENT'S COMMENT:

We concur. The focus group (see finding 1) will help the commission develop procedures whereby accountability for federal funding may be ascertained. The commission's director of administrative services has met with the Office of Cash Management of the Department of Finance and Administration to develop a drawdown policy and schedule that will be in compliance with the department's Policy Statement 20. A copy of the commission's policy and schedule will be forwarded to the Division of State Audit by June 30, 1997.

THE COMMISSION HAS FAILED TO APPROPRIATELY REACT TO THE  
MUSEUM'S FAILURE TO PROVIDE INFORMATION FOR THE FINANCIAL  
INTEGRITY ACT REPORTS FOR 1993, 1994, AND 1995

6. FINDING:

As stated in the prior audit, the Tennessee Arts Commission did not comply with the requirements of the Financial Integrity Act of 1983 regarding the evaluation of internal controls. Management concurred with the prior audit finding and stated their intent to obtain the information required to submit a complete report by December 1994. However, the commission did not file reports for 1993, 1994, and 1995 because of lack of internal accounting and administrative controls information from the Tennessee State Museum.

The Financial Integrity Act, as cited in Section 9-18-102, *Tennessee Code Annotated*, stipulates:

Each agency of state government shall establish internal accounting and administrative controls which shall provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
- (2) Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The act further stipulates in Section 9-18-104:

- (a) By December 31 of each year, the head of each executive agency shall . . . prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report which states that:
  - (1) The agency's systems of internal accounting and administrative control fully comply with the requirements specified in this chapter; or
  - (2) The agency's systems of internal accounting and administrative control do not fully comply with such requirements.

- (b) In the event that the agency's systems do not fully comply with such requirements, the report shall include and identify any material weaknesses in the agency's systems of internal and accounting control and the plans and schedule for correcting such weaknesses.

The failure to conduct a Financial Integrity Act review is in itself evidence of poor internal accounting and administrative controls.

RECOMMENDATION:

The commission should ensure the requirements of the Financial Integrity Act of 1983 are met. The executive director should ensure internal accounting and administrative controls are in place, especially those of the Tennessee State Museum. The commission should also maintain written documentation of the evaluation of internal accounting and administrative controls (noting its presence or absence) and submit a complete annual Financial Integrity internal control report to the appropriate authorities in accordance with state law.

MANAGEMENT'S COMMENT:

We concur. At the executive director's request, all appropriate museum staff members, including the museum's deputy director, have received professional training from the Tennessee Department of Personnel to help them prepare Financial Integrity Act reports related to internal and administrative controls. The museum has retained a consultant for additional assistance and the focus group (see finding 1) will review the museum's procedures. The museum will submit its 1995 report by September 30, 1996. The 1996 report will be on time and include information from the museum as well as the commission. The assistant director and the director of administrative services will continue to prepare the Finance Integrity Act report for the Arts Commission.

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AS NOTED IN 1988, 1989, 1990, 1991, 1992, AND 1993, THE TENNESSEE STATE MUSEUM'S CONTROLS OVER EQUIPMENT ARE INADEQUATE

7. FINDING:

The Tennessee State Museum continues to maintain inadequate controls over equipment. This problem has been reported since 1988. In response to the most recent audit, museum management concurred and listed specific procedures to be implemented to improve internal controls. However, none of management's proposed procedures have

been initiated. A new property officer and departmental property officers have not been appointed. Fourteen of 19 equipment items (73.7%) which were missing during the previous audit are still missing, and no documentation to report missing items had been initiated.

During the current audit, five of 42 equipment items selected for review (11.9%) could not be located, and surplus or missing-item documentation was unavailable. Management performed an inventory in May 1995, but all items recorded could not be located at that time and had not been surplused or reported missing to the Comptroller of the Treasury.

The Department of General Services' *Inventory Procedures Manual* states:

Departmental Property Officers are responsible for identifying all state personal property, keeping an accurate record of same, including items on the inventory system as well as items of insufficient value to be included, and overseeing prompt and proper disposal of property no longer useful to the department (whether by surplusing or deleting with proper documentation).

Section 8-19-501, *Tennessee Code Annotated*, states that "it shall be the duty of any official or any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury."

Furthermore, the Department of General Services inventory manual states that "every state agency, unless specifically exempted by law, must take an annual physical inventory prior to the close of the Fiscal Year."

Because museum management has not complied with the rules of the Department of General Services, the amount shown in the general fixed assets account group presented in the *Tennessee Comprehensive Annual Financial Report* may not reflect the correct value of property and equipment. Improved internal controls over property and equipment would assist management in maintaining an updated personal property listing and assist in planning the annual physical inventory. Furthermore, following the procedures described by the Department of General Services would allow the commission to remain in compliance with the laws of the State of Tennessee.

#### RECOMMENDATION:

The commission should require museum management to improve internal controls over property and equipment and to adhere to the policies and procedures mandated by the Department of General Services. The commission should then follow up to ensure the

museum management's compliance. Any lost or stolen items should be re-reported promptly to the Comptroller of the Treasury.

MANAGEMENT'S COMMENT:

We concur. The museum's executive director will work with the focus group (see finding 1) to establish procedures to improve internal controls for property and equipment within the museum and ensure compliance with applicable guidelines. A copy of this written procedure will be forwarded to the Division of State Audit and the Department of Finance and Administration. The fiscal year 1996 inventory of equipment has been completed in accordance with the Department of General Services' *Inventory Procedures Manual*. A letter has been sent to the State Comptroller reporting lost items that will be removed from the list. Items broken or not used will be surplus by August 30, 1996. A memo to each museum staff person informing them that equipment movement must be reported in writing to the property officer was issued on July 30, 1996.

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AS NOTED IN 1986, 1987, 1988, 1989, 1990, 1991, 1992, AND 1993,  
PERFORMANCE EVALUATIONS ARE NOT PERFORMED IN A TIMELY  
MANNER FOR TENNESSEE STATE MUSEUM STAFF

8. FINDING:

As noted in the four previous audits since 1986, Tennessee State Museum management has not conducted performance evaluations in a timely manner. Management concurred with the prior audit finding and stated that all supervisory personnel would be reminded of the importance of employee evaluations and that the appointing authority would monitor the timely completion of evaluations. However, there is no documentation that they took these actions, and the problem still remains. Thirteen of 19 employee files tested (68%) contained no evidence of an annual performance evaluation.

The Department of Personnel's regulations require management to formally evaluate each employee periodically depending on the employee's job classification and length of employment. In no case, however, should evaluations be performed less often than annually. Section 1120-5-1-10 of the *Personnel Management Policies and Procedures Manual* states that the purpose of job performance evaluations is "to promote employee development, to enhance employee productivity, to serve as a basis for sound personnel decisions, and to provide a permanent record of job performance for employees in State service."

To provide feedback on job performance, to maintain and improve job performance, and to make informed decisions about promotions, the commission needs to evaluate employees regularly and record the dates of the evaluations.

RECOMMENDATION:

The commission should ensure that all supervisors comply with Department of Personnel regulations and that employee evaluations are completed in a timely manner.

MANAGEMENT'S COMMENT:

We concur, but wish to have noted that the percentage of museum employees' without performance evaluation reports has decreased since August 1995. The museum has established a log-in/log-out tracking procedure to complete performance evaluations in a timely manner. In addition, the commission's executive director will now issue monthly, rather than semi-annual, reminders to all supervisory personnel. In addition, the commission's executive director will continue to place documentation in the person-nel file of any supervisor who fails to perform performance evaluations in a timely manner.

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THE COMMISSION HAS NOT SYSTEMATICALLY  
MONITORED SUBRECIPIENTS

9. FINDING:

As stated in the prior audit, the Tennessee Arts Commission has not systematically monitored its subrecipients. Management concurred with the prior audit finding and has begun to document on-site reviews; however, monitoring still needs improvement. The commission's limited monitoring procedures consist of reviewing reports to support the drawdown request and periodically performing on-site and fiscal monitoring for some subgrantees. However, no system has been established to ensure that all the subrecipients will be reviewed at some point.

Section 40 of the Office of Management and Budget (OMB) Circular A-102, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)," states that the grantee is responsible for monitoring both its own activities and the activities of its subgrantees.

Furthermore, good internal controls mandate that the commission properly monitor the activities of its subrecipients of state and federal funds to ensure that awards and subsequent payments are authorized under the grant and that subrecipients comply with state and federal grant requirements.

RECOMMENDATION:

The executive director and Arts Program assistant director should establish a plan for systematic review of subrecipients on a cyclical or other basis which would ensure that all subrecipients would be periodically reviewed.

MANAGEMENT'S COMMENT:

We concur. However, we wish to have noted that when this finding first occurred in 1994, the commission created a monitoring form which the Arts Program and Administrative Services staff of the commission has used in order to provide supporting documentation for on-site reviews to as many grantees as possible. The commission with the focus group (see finding 1) will now establish a systematic methodology whereby subrecipients are periodically monitored to ensure that grant funds are properly expended and which will result, we believe, in all grantees being reviewed periodically.

## **Compliance Report**

February 22, 1996

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

Dear Mr. Snodgrass:

We have applied procedures to test the Tennessee Arts Commission's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994. We performed the procedures in accordance with generally accepted government auditing standards.

Compliance with laws, regulations, contracts, or grants applicable to the commission is the responsibility of the commission's management. Our objective 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 indicate that the Tennessee Arts Commission complied with the provisions referred to in the preceding paragraph, except for certain instances of noncompliance included in the Findings and Recommendations section of this report. We also noted other less significant instances of noncompliance that we have reported to the commission's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee 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

