DEPARTMENT OF STATE

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

Arthur A. Hayes, Jr., CPA
Director

Charles K. Bridges, CPA
Assistant Director

Debra D. Bloomingburg, CPA
Audit Manager

Dorothy R. Hagood
In-Charge Auditor

Ahmad Hadi
Kimberly Rosson
Suzanne Smotherman, CPA
Staff Auditors

Leslie Bethea
Editor

September 25, 1996

The Honorable Don Sundquist, Governor
and
The Honorable Riley C. Darnell, Secretary of State
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Department of State 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 department'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
96/083

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Compliance Audit
Department of State
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of State'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

Duties Not Adequately Segregated*
Duties in the fiscal and personnel offices are not adequately segregated. The purchasing clerk is performing personnel duties, while an accounting technician and an administrative assistant who process payments in the fiscal office are performing purchasing duties (page 9).

Cash-Receipting Function Not Adequate**
No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented although the proper fee had not been received, and the department could lose revenue (page 10).

STARS Reconciliations Are Inadequate
Divisions of the department did not reconcile, did not reconcile timely, or did not document the reconciliations of revenue received with the STARS reports (page 11).

COMPLIANCE FINDINGS

Compliance With Leave and Attendance Policies and Procedures Needs Improvement
The department did not follow policies and procedures concerning leave and time and attendance recordkeeping. Supervisors did not monitor the leave taken by their employees. As a result, a large amount of leave without pay was taken (page 12).

Funds Inappropriately Spent at the Library for the Blind and Physically Handicapped

Restricted funds were used to finance a retirement party for the director of the library (page 14).

Compliance With State Purchasing Procedures Should be Improved
The department did not document the receipt of goods, cancel invoices, pay invoices timely, charge items to the correct object code, or maintain adequate documentation for all disbursements (page 15).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

"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

AUDIT REPORT
DEPARTMENT OF STATE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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DEPARTMENT OF STATE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the compliance audit of the Department of State. 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 department'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.

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

The Secretary of State is one of three constitutional officers provided for by Tennessee's Constitution; the office is held for a term of four years. The Secretary of State, according to the Constitution, is to maintain a register of the official acts and proceedings of the Governor and is to be prepared to present them before the General Assembly. Additional functions of the Secretary of State are outlined in the state statutes and regulations.

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

The State Election Commission is elected by the General Assembly to appoint and oversee county election commissioners who conduct elections and voter registration. The commission is attached to the Department of State for all administrative matters relating to receipts, disbursements, expense accounts, budgets, audits, and other associated items; however, the commission's autonomy is not affected by this attachment.

The Registry of Election Finance was created by the General Assembly on October 1, 1989, to enforce statutes requiring financial disclosure by public officials, candidates for public office, and lobbyists. The registry is composed of seven members: three appointed by the Governor, two appointed by the Senate, and two appointed by the House of Representatives. The registry is also attached to the Department of State for administrative matters, but the registry's autonomy is not affected by this connection.

ORGANIZATION

The Department of State is organized into the following major divisions:

<u>Fiscal and Administrative Services Division</u> - This division directs, coordinates, and supervises the various operating divisions within the Department of State. General administrative services including budget and fiscal control, automation programs, and special services are provided in this division. The responsibilities for the permanent filing, publication, and distribution of all acts and resolutions of the General Assembly and the permanent filing of the official acts and proceedings of the Governor are assigned to this division.

Publications Division - The primary responsibility of this division is the publication of the *Tennessee Blue Book* and other documents for which the Secretary of State is responsible.

Charitable Solicitations Division - This division is responsible for the registration and certification of charitable organizations and professional solicitors. The division may investigate fund-raising irregularities and take appropriate action to ensure public confidence in charitable activities.

Administrative Procedures Division - This division is required to investigate and suggest solutions for conflicts that may develop between state and federal administrative procedures; to provide, in cooperation with the Attorney General's Office, administrative law judges for contested cases as stated in Section 4-5-321, *Tennessee Code Annotated*; and to aid state agencies in complying with the Uniform Administrative Procedures Act.

Services Division - Duties of this division include receiving and filing state and foreign corporate charters, issuing notary public commissions, serving out-of-state summonses, registering trademarks, and filing financing statements under the Uniform Commercial Code.

State Election Coordinator - The State Election Coordinator, under the Secretary of State, is concerned with the uniformity of election procedures throughout the state. The coordi-nator, appointed by the Secretary of State, interprets and rules on provisions of the election code for state and county officials.

Library and Archives Division - This division collects and preserves books, materials, and records of historical, documentary, and reference value and encourages and promotes library development throughout Tennessee.

Personnel and Development Division - This division is responsible for the department's human resource activities. These activities include managing employment practices, administrating employee programs, and ensuring compliance with human rights legislation. The divi-sion also provides staff support for certain boards and commissions on which the Secretary of State serves *ex officio*.

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

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

305.01	Secretary of State
305.02	State Election Commission
305.03	Public Documents
305.04	State Library and Archives
305.05	Regional Libraries
305.06	Construction Grants
305.07	Registry of Election Finance

A separate audit report will be issued on the Regional Libraries for the period July 1, 1993, through June 30, 1995.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The department filed its report with the Department of Audit on February 21, 1995. 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 department has corrected previous audit findings concerning the implementation of a disaster recovery plan and the untimely deposit of cash receipts in the Uniform Commercial Code section.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate cash-receipting procedures for the Corporate Management System and inadequate segregation of duties between the fiscal and personnel offices. These findings have not been resolved and are repeated in this report.

OBSERVATIONS AND COMMENTS

Compliance With Title VI of the Civil Rights Act of 1964

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. The Department of State filed its compliance report and implementation plan due on June 30, 1995, on June 30, 1995, and the report due on June 30, 1994, on July 1, 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.

RESULTS OF THE AUDIT

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

With respect to the items tested, the department 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

March 25, 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 Department of State'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 March 25, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

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

The Department of State'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.

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 department's ability to comply with laws, regulations, contracts, or grants. However, we did note the follow-ing deficiencies:

- Duties in the fiscal and personnel offices are not adequately segregated
- The cash-receipting function of the Corporate Management System is not adequate
- Reconciliations of revenue with STARS are 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 Department of State'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

DUTIES IN THE FISCAL AND PERSONNEL OFFICES ARE NOT ADEQUATELY SEGREGATED

1. FINDING:

As noted in the prior audit, duties in the fiscal and personnel offices are not adequately segregated. Management concurred with the prior finding and stated, "Due to the staff size in the fiscal and personnel offices, it is difficult to accomplish an optimum level of segregation of duties. The department will continue its efforts toward implementing an effective internal control structure within the constraints of available resources." However, no changes in the segregation of duties have been made.

In addition to performing her purchasing duties, the purchasing clerk in the fiscal office enters personnel information into the State of Tennessee Employee Information System (SEIS) and maintains the personnel portion of employee files. Because this employee is performing personnel duties, she does not have enough time to complete all of her purchasing duties. To ensure that all of the purchasing is completed, a fiscal office accounting technician and an administrative assistant, who both process payments, are also performing some of the purchasing duties. The administrative assistant in the per-sonnel section completes some of the personnel paperwork, coordinates training for the department, and assists in interviewing and screening job applicants.

Good internal control procedures dictate that accounting duties be properly assigned and segregated. The same person should not perform purchasing duties and process payments.

RECOMMENDATION:

Although a limited number of employees are available to perform the accounting and personnel functions, management should consider reassigning duties among these employees to effectively segregate duties. Employees in the personnel office should process all personnel-related paperwork, enter all personnel transactions into SEIS, and maintain the personnel portion of employee files. The purchasing clerk should perform all purchasing duties, and the accounting technician and administrative assistant in the fiscal office should process the payments.

MANAGEMENT’S COMMENT:

We concur. However, there is presently only one staff member in the personnel division. This is not an adequate resource to execute all personnel transactions as well as other personnel duties. In addition, the department would be unable to process personnel transactions in the absence of the employee.

Likewise, there are presently only four accounting office staff members. Total segregation in all accounting duties would leave the office unable to function in the absence of any one staff member.

Furthermore, the department requires that all transactions be approved by management which provides additional assurance that no one person can fully execute an accounting transaction without management’s knowledge.

THE CASH-RECEIPTING FUNCTION OF THE CORPORATE MANAGEMENT SYSTEM IS NOT ADEQUATE

2. FINDING:

As noted in the prior three audits covering five years, improvements are needed in the Corporate Management System’s (CMS’s) cash-receipting procedures. CMS is a computerized system that provides information on corporate filings and other fees for services provided by the Department of State. These services include filing corporate charters, filing annual reports, issuing notary commissions, and registering trademarks. The system was implemented to simultaneously document these services and receipt the fees collected. The majority of fees collected by the department flow through this system. However, no controls are in place within CMS to prevent data-entry clerks from assigning the same receipt number to several documents. Therefore, documents could be filed and recorded although the proper fee had not been received. Failure to correct the cash-receipting problem could result in a loss of revenue for the department. Management is responsible for ensuring that adequate controls are in place to prevent the possible loss of revenue.

Management concurred with the prior findings and stated in the most recent audit that “progress will continue to be made as resources, both in this department and in the Office for Information Resources, are available for such purpose.” Management has documented and reported the cash-receipting problem to Application Programming Support (APS) in the Department of Finance and Administration. In turn, APS has determined the estimated cost for correcting the problem. Although several minor problems with the CMS application have been resolved, because of the high estimated cost of correcting the cash-receipting function, Department of State management has decided to replace CMS with a new system rather than make the necessary program changes to CMS. Management plans to install the new system in the 1999 fiscal year.

RECOMMENDATION:

Management should continue to pursue the installation of a new system that will ensure that documents cannot be filed unless the fee remitted by the customer is suffi-cient to cover all documents submitted for filing.

MANAGEMENT'S COMMENT:

We concur.

RECONCILIATIONS OF REVENUE WITH STARS ARE INADEQUATE

3. FINDING:

Reconciliations between departmental revenue records and the State of Tennessee Accounting and Reporting System (STARS) were not prepared, documented, or completed promptly by all department personnel. State Library and Registry of Election Finance personnel did not prepare reconciliations. According to Uniform Commercial Code division personnel, they perform reconciliations but do not document them. The services division personnel did not complete the reconciliations promptly: reconciliations for March 1994 through November 1995 were completed in January 1996, and the December 1995 reconciliation had not been completed as of February 6, 1996. Reconciling departmental records with transactions in STARS and maintaining documentation of the reconciliation helps to ensure that the information in the centralized accounting system is accurate.

The failure to promptly reconcile or document reconciliations of departmental revenue records with STARS could result in the failure to detect errors and irregularities.

RECOMMENDATION:

All divisions of the department should apply proper controls over revenue by promptly reconciling departmental revenue records with STARS and adequately documenting the reconciliation.

MANAGEMENT'S COMMENT:

We concur. The Department has developed revenue reconciliation procedures that require that revenue reconciliations be completed in a timely manner. These proce-dures have been distributed to all applicable divisions.

COMPLIANCE WITH LEAVE AND TIME AND ATTENDANCE RECORDKEEPING POLICIES AND PROCEDURES NEEDS IMPROVEMENT

4. FINDING:

Employees of the Department of State did not follow the departmental policies and procedures relating to leave and time and attendance recordkeeping. The policies and procedures, as described below, are included on pages 73 and 74 of the Department of State *Policy and Procedure Manual*.

Annual and compensatory leave should be approved by the employee's supervisor in advance or as soon as possible afterward if advance approval is not possible. The approval for all types of leave is documented on an Application for Leave Form. This form is approved by the employee's supervisor and the division director for annual, sick, and compensatory time. The form is also approved by the Secretary of State for annual or compensatory time in excess of five consecutive workdays and for the use of any other type of leave. The supervisor is responsible for maintaining a daily record of attendance for each employee supervised. After all approvals are obtained, the leave forms are sent to the fiscal office at the end of each workweek. The fiscal office personnel then enter the leave information on a weekly basis in the department's computerized attendance and leave system. The forms are then placed in a pending file. At the end of the month, the computerized attendance and leave system prints a Daily Attendance Record for each employee. Three copies of the Daily Attendance Record are sent to the appropriate division for signatures by the employee, the supervisor, and the division director certifying the accuracy of the record. After the signatures are obtained, one copy of the approved Daily Attendance Record is sent back to the fiscal office where it is reconciled with the leave forms that were placed in the pending file.

Although management has established procedures, testwork revealed several problems regarding leave and time and attendance reporting. Supervisors are not sending the leave forms to the fiscal office on a weekly basis as required; thus, the fiscal office employees are unable to enter the leave information on the computerized attendance and leave system promptly. Leave taken by employees is not adequately monitored by the supervisors resulting in large amounts of leave without pay. In addition, leave without pay forms are sent to the fiscal office before the Secretary of State's approval is obtained.

In the case of leave without pay, the manual states, "IT IS THE RESPONSIBILITY OF EACH SUPERVISOR TO IMMEDIATELY REPORT TO THE FISCAL OFFICE, ANY ABSENCES WHICH MAY RESULT IN TIME WITHOUT PAY. This is particularly important during the last ten days of the month when the process of generating the payroll is underway." However, because the supervisors are not adequately monitoring the employees' leave, the need to use leave without pay is not known until it is too late to adjust the payroll. Thus, supplemental payroll requests are used. Of the 97 Requests for Supplemental Payroll processed during the audit period, 41 (42.2%) were made to make adjustments relating to leave without pay. Thirteen of these 41 supplemental payrolls were for employees who took leave without pay before the payroll process date. However, the fiscal office employees were not notified in time to correct the payroll.

RECOMMENDATION:

Upper management of the department should ensure that supervisors send all Application for Leave Forms to the fiscal office on a weekly basis and fiscal office personnel promptly enter this information into the computerized attendance and leave system. All necessary approvals should be obtained before the leave forms are sent to the fiscal office. Management should encourage employees to accrue annual and sick leave in order to minimize leave without pay. Supervisors should monitor their employ-ees' leave balances to determine chronic use of leave without pay at the end of the month. Appropriate administrative action should be taken for any employee who chronically uses leave without pay at the end of the month and for any supervisor who does not monitor their employees' leave.

MANAGEMENT'S COMMENT:

We concur. Measures have since been implemented to ensure compliance.

MANAGEMENT OF THE LIBRARY FOR THE BLIND AND PHYSICALLY HANDICAPPED INAPPROPRIATELY SPENT RESTRICTED FUNDS

5. FINDING:

Management of the Library for the Blind and Physically Handicapped inappropriately spent $1,423.35 of restricted funds maintained in an authorized departmental bank account. Of this amount, more than $660.93 was spent on a retirement party for the director of the library. The remainder was spent on items such as a microwave, coffee pot, and toaster. These restricted funds were intended for the operation of the library and were obtained from donations made by the public. The Department of Finance and Administration Policy 7, section 07-02-402, states, "Disbursements made from the account are to be consistent with the approved purpose of the fund." The use of restricted funds for any purpose other than directly operating or aiding the library is a misuse of funds.

The departmental bank account has subsequently been closed. The balance of the funds have been deposited in a contingent revenue account with the Department of Finance and Administration.

RECOMMENDATION:

Management of the Library for the Blind and Physically Handicapped should comply with the terms and conditions of the policies governing departmental bank accounts.

MANAGEMENT'S COMMENT:

We concur. The checking account has since been closed and donations are currently being accounted for on the statewide accounting system.

THE DEPARTMENT DID NOT ALWAYS COMPLY WITH STATE PURCHASING PROCEDURES

6. FINDING:

The Department of State did not always comply with the state's purchasing procedures. An examination of the department's expenditures revealed the following problems:

a) Four of 15 invoices tested for evidence of receipt of goods (26.7%) did not have an employee's initials or signature indicating that the goods were received. The Department of General Services' *Purchasing Procedures Manual*, Section 17.1, states that "the receiving agent thereof shall make a written certification that the supplies, materials or equipment received were equal in quality and quantity to those purchased." If agency personnel do not certify the receipt of goods, the agency may not receive the proper quantity or the proper item or may pay for goods not received.

b) Five of 20 invoices tested (25%) were not canceled. Good internal controls require that invoices be canceled following payment. If invoices are not canceled when paid, duplicate payments could result.

c) Four of 20 disbursements tested for timely payment (20%) were not paid timely. Invoices were paid from four to 28 days late. Section 19.1 of the Department of General Services' *Purchasing Procedures Manual* states, "To promote good public relations . . . agencies should establish internal procedures to ensure prompt transmittal of claims to the Division of Accounts for payment." Additionally, Section 12-4-703 of *Tennessee Code Annotated* states, "An agency . . . shall pay for each complete delivered item . . . in accordance with the provisions of the contract . . . or, if no date or other provision for payment is specified by contract, within forty-five (45) days after receipt of the invoice." Unless payments are made promptly, vendor relations may be harmed. Additionally, not paying within 45 days violates state law (unless the contract specifically allows for a later payment).

d) Four of 28 disbursements tested (14.2%) did not have adequate documentation attached. Two of the disbursements were made by journal vouchers which transfer funds between two state agencies, and two were invoices from vendors. All of the disbursements were made during the audit period. The Department of General Services, Records Management Division, requires that records be maintained by fiscal year. Records may be destroyed after submission of the final audit report. Without documen-tation, the propriety of charges cannot be determined.

e) Three of 30 disbursements tested (10%) were charged to incorrect object codes. Additionally, five of 20 travel claims tested (25%) contained telephone charges that were charged to miscellaneous travel instead of communications. The Department of General Services' *Purchasing Procedures Manual*, Section 8.5.1, indicates that each department is responsible for using correct object codes for accounting and budget control purposes. The use of incorrect object codes inaccurately records a department's expenditures and inaccurately represents the uses of funds for budgetary purposes.

RECOMMENDATION:

Management should ensure that personnel in the Department of State document the receipt of goods, cancel documents to prevent duplicate payments, pay expenditures promptly, maintain adequate support for expenditures, and charge expenditures to the proper object code.

MANAGEMENT'S COMMENT:

We concur. Action has since been taken to ensure that disbursements are processed in accordance with state purchasing regulations.

Compliance Report

March 25, 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 Department of State'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 Department of State is the responsibility of the department'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 Department of State 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 department'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