

EXECUTIVE DEPARTMENT

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

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September 20, 1996

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Executive Department for the years ended June 30, 1995, and June 30, 1994.

Consideration of the internal control structure and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The department's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
96/098

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit

Executive Department

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

AUDIT OBJECTIVES

The objectives of the audit were to consider the department's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDING

Accountability for Equipment Needs Improvement

Accountability for equipment needs to be improved. Eighteen of 38 items tested could not be located, and five of 23 items tested were not listed on the Property of the State of Tennessee (POST) property listing (page 7).

"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

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

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EXECUTIVE DEPARTMENT
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 Executive Department. 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 Governor is “chosen by the electors of the members of the General Assembly, at the time and place where they shall respectively vote for the members thereof,” according to the Constitution of Tennessee, Article III, Section 2. The Governor is the chief executive of the state and holds the office for a four-year term. A 1978 amendment to the Tennessee Constitution allows the Governor to serve two consecutive four-year terms.

The Governor’s constitutional duties, in addition to being chief executive, include serving as commander-in-chief of the Army and Navy of the state; granting reprieves and pardons; convening the General Assembly in extraordinary sessions by proclamation; reporting to the General Assembly information on the state of the government and recommending for their consideration such measures as he judges expedient; sealing and signing all grants and commissions in the name and by the authority of the State of Tennessee; and signing or vetoing bills passed by both houses of the General Assembly.

ORGANIZATION

The Governor’s Office is part of the Executive Department. The Governor, as chief executive of the state, is responsible for the operation of the state government. In addition to appointing the commissioners of the various departments, he may appoint executive assistants and administrators for his personal staff to coordinate specific assignments that he may designate. The Governor’s staff, including executive, administrative, and secretarial personnel, is responsible for providing general and administrative assistance to the Governor. In addition, staff members are responsible for working with state agencies and department personnel to design and implement specific program priorities.

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

- 315.01 Governor’s Office
- 315.02 Intergovernmental Conferences and Special Operations

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

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 year ended June 30, 1994, the Executive Department filed its compliance report and implementation plan on June 30, 1994. For the year ended June 30, 1995, the department did not receive any federal funds and was not subject to the requirements of Title VI of the Civil Rights Act of 1964.

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. Consideration of the internal control structure disclosed no significant deficiencies.

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 an instance of noncompliance included in the finding and recommendation. The compliance report follows the finding and recommendation.

Report on the Internal Control Structure

March 19, 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 Executive Department'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 19, 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 Executive Department'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
March 19, 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 department's ability to comply with laws, regulations, contracts, or grants.

We noted certain matters involving the internal control structure and its operation 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

FINDING AND RECOMMENDATION

ACCOUNTABILITY FOR EQUIPMENT NEEDS IMPROVEMENT

FINDING:

The Executive Department needs to strengthen its accountability for equipment. The following deficiencies were noted during the audit:

- Eighteen of 38 items (47.4%) could not be located.
- Five of 23 items tested (21.7%) were not included on the Property of the State of Tennessee (POST) property listing.

The Department of General Services' *Inventory Procedures Manual* states that each department is responsible for preparing documents reflecting changes in tag number, location, condition, and description for all inventory items on hand.

If equipment is not properly recorded, the probability of loss or theft increases, and physical security and accountability decrease.

RECOMMENDATION:

The property officer should compare the equipment on hand with the POST property listing and investigate any differences. When any changes occur in the status of equipment, department personnel should promptly notify the property officer. The property officer should then update POST to reflect the changes.

MANAGEMENT'S COMMENT:

We concur. Current management was not aware that an equipment inventory had not been done and/or kept up-to-date. An in-depth inventory has been completed and all proper procedures have been followed per the Department of General Services "Inventory Procedures Manual."

Compliance Report

March 19, 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 Executive Department'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 Executive Department is the responsibility of the department's management. Our objective was not to provide an opinion on over-all compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that the Executive Department complied with the provisions referred to in the preceding paragraph, except for one instance of noncompliance included in the Finding and Recommendation section of this report. We also noted several 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