

TENNESSEE BOARD OF PAROLES

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

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January 7, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Charles M. Traugher, Chairman
Tennessee Board of Paroles
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Tennessee Board of Paroles 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 board'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
96/104

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit

Tennessee Board of Paroles

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

AUDIT OBJECTIVES

The objectives of the audit were to consider the board'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

Management Failed to Adequately Protect Computer System Information, Segregate Duties, and Safeguard Assets

The Knoxville regional office management lacked controls over its fee-payment computer system, inadequately segregated cash-receipting duties, and insufficiently safeguarded cash receipt books and undeposited money orders (page 7).

Fees Not Properly Assessed and Collected*

The board did not ensure that parolee fees were properly determined and that fee reductions or exemptions were verified and documented. In addition, the board did not always take appropriate action when fees were delinquent (page 10).

COMPLIANCE FINDING

Insufficient Employee Training*

The board has not provided its employees the minimum training required by the board's policy manual (page 11).

* 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
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AUDIT REPORT
TENNESSEE BOARD OF PAROLES
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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TENNESSEE BOARD OF PAROLES
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 Tennessee Board of Paroles. 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 board’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 Tennessee Board of Paroles was created as an independent state agency through the Pardons and Paroles Reform Act of 1979 (Chapter 359 of the Public Acts of 1979). Prior to 1979, the parole board function was administered within the Department of Correction. Various legislative acts have expanded the board's functions related to granting paroles and supervising parolees.

ORGANIZATION

The Tennessee Board of Paroles is headed by a seven-member board. The Governor designates one of the board members as chair. Reporting directly to the chair are the executive director and the parole hearing director. The executive director is supported by staff including a director of parole field services, a director of board operations, a director of administrative services, a staff attorney, and a director of training.

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

The Tennessee Board of Paroles is part of the general fund of the State of Tennessee and is responsible for allotment code 316.29.

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 Tennessee Board of Paroles filed its report with the Department of Audit on October 30, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the board has corrected a previous audit finding concerning controls over purchasing.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the proper assessment and collection of fees and the provision of required training to employees. These findings have not been resolved and are repeated in this report.

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 Tennessee Board of Paroles complied with the provisions of certain laws, regulations, contracts, or grants except for an instance of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

Report on the Internal Control Structure

April 4, 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 Board of Paroles' 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 April 4, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

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

The Tennessee Board of Paroles' 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
April 4, 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 board's ability to comply with laws, regulations, contracts, or grants. However, we did note the following deficiencies:

- Management failed to adequately protect computer system information, segregate duties, and safeguard assets.
- The board did not ensure that all fees were properly assessed and collected.

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 board'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

MANAGEMENT FAILED TO ADEQUATELY PROTECT COMPUTER SYSTEM INFORMATION, SEGREGATE DUTIES, AND SAFEGUARD ASSETS

1. FINDING:

The Board of Paroles lacks sufficient controls over its fee-payment computer system. Each of the board's six regional offices uses a computer system developed for personal computers by a former employee to record and monitor the collection of fee payments from parolees for supervision and victim's compensation. However, the system does not require a user identification or password and does not maintain a record of users who update the data or make program changes. The lack of passwords enables unauthorized access, input, edits, and deletions. Moreover, each field office has modified or customized the system without documenting the changes or seeking management approval, according to the Information Systems Management (ISM) director. Therefore, system use and employee training are not consistent among the regional offices, and management's control over the system is lessened.

As a result of this lack of controls, the computer system in the Knoxville regional office was accessed after business hours by an unknown individual or individuals. Although testwork did not reveal that any funds had been misappropriated, the failure to adequately safeguard access to the computer and to the parolees' computer-based payment files is a significant weakness which could result in manipulation or alteration of records.

The Knoxville regional office also lacks sufficient segregation of duties pertaining to receipting functions. When the receptionist or account clerk's supervisor was not available to receive money orders and to log payments, the account clerk often performed these duties. Subsequently, the clerk restrictively endorsed the money orders, prepared cash receipts, prepared the daily cash journal report, and completed deposit slips. Although the account clerk's supervisor would review the clerk's work, she did not reconcile the deposits with the daily log sheets to ensure that all receipted money orders were deposited. In addition, after the supervisor verified the accuracy of the deposit slips, she returned the paperwork to the account clerk before the deposit was made. This inadequate segregation of duties could have allowed the account clerk the opportunity to later alter the deposit slips because there was no further review before the deposit was made. Because the Knoxville regional office collected more than \$87,000 in the year ended June 30, 1995, failure to segregate duties could result in significant losses to the state.

Such inadequate segregation of duties in other state agencies has contributed to losses totaling \$57,232 in the Cheatham County Health Department and in the Depart-

ment of Children's Services. In both instances, a clerk's duties were not properly segregated, and the thefts went undetected because the transactions processed by the clerks were not properly reviewed.

Assets at the Knoxville regional office were not adequately safeguarded because the account clerk failed to deposit money orders timely. Eight nonrestrictively endorsed money orders from four to seven days old were found in the clerk's drawer. The account clerk stated that she routinely held money orders that did not contain the parolee's identification number until she had time to locate the number on her database. Failure to promptly deposit fees collected could result in loss of interest income to the state, and failure to restrictively endorse money orders immediately upon receipt could result in misappropriation of funds. There is no need to delay the deposit of funds pending determination of the parolee's identification number. The clerk can account for the deposited funds by coding the deposit to a clearing account until the parolee's identification number is obtained and entered in the database.

During the review, the regional director initiated changes in procedures to provide for (1) better segregation of duties pertaining to receipting functions, (2) detailed supervisory review of the account clerk's activities, and (3) better safeguarding of cash receipt books and undeposited money orders.

RECOMMENDATION:

The board should reassess controls over the computer program used for recording fee collections. Management should develop a policy detailing the type of information to be entered, who is authorized to enter the information, the types of reports that should be generated (as well as their purposes), and who is designated to review the reports. The Information System Management director should install a password and user ID program that would provide an appropriate level of security over access to parolee information.

In addition, management should consider implementing system-monitoring software because the computerized system manages financial accounting of cash collections. This type of software is commercially available and provides access control and reports unusual system activity. Reports of user activity should be periodically examined by personnel other than the primary users and the system administrator. Personnel independent of daily operations could include the fiscal director, Information System Management director, etc.

The March 1, 1989, policy and procedure for fee deposits should be updated to reflect current procedures in the regional offices and proper segregation of duties. The fiscal officer and the Information System Management director should schedule adequate training sessions that cover any new policies dealing with end-of-the-month reports and computer security.

The procedures implemented by the Knoxville regional director regarding segregation of duties, supervisory review, and safeguarding of assets should be reviewed with the other regional directors and instituted where necessary.

MANAGEMENT'S COMMENT:

We concur. The Board of Paroles has issued orders to purchase microcomputers and software productivity tools to implement a new parolee fee accounting system statewide. The project will include the design and development of a software system which incorporates the following features:

- posting of daily collection of fees
- generation of standardized reports of fee collections by fund, parolee, parole officer, site, region, and agency
- software access control using log-on procedures and User ID authentication
- transaction tracking and authentication by attaching User ID, date, and time stamp to each transaction entered into the fee system data base
- maintenance of a system access log of all users accessing the fee software

All appropriate staff at each site will be trained on the usage of the new system with emphasis on access control and system security. The IS Division and fiscal staff will provide on-going fee system technical support and training for end-users at all sites.

System access logs will be reviewed periodically by site management and fiscal staff to ensure continued integrity of the system.

Users will receive compiled, run-time versions of the fee program thereby eliminating their ability to make customized software changes at individual locations. All software changes will be made by IS Division staff, and documentation of changes will become part of the permanent system documentation after review and approval of the change. New software versions will be installed at each site, following any software changes, thereby maintaining conformity statewide.

The Division of Field Services has implemented Board of Paroles Policy 703.04 (11-30-95), *Assessment and Collection of Fees*, and 405.01 (11-30-95), *Deposit of Fees Collected from Parolees*, to reflect the recommended procedure in the Regional Office and the proper segregation of duties.

In June and July of 1996, Fiscal Services held training sessions involving the account clerks, the Director of Paroles, and the Agency Policy Coordinator. The sessions started with a review of each Regional Office's fee collection and recording procedures, goal being uniformity. The second session was a review of Policies 405.01 (11-30-95), *Deposit of Fees Collected from Parolees*, and 703.04 (11-30-95), *Assessment and Collec-*

tion of Fees. Several policy change requests were generated from the second session. The final session was to generate input on the design of the new fee system.

AS WAS THE CASE FOR THE PREVIOUS EIGHT YEARS, THE BOARD DID NOT ENSURE THAT ALL FEES WERE PROPERLY ASSESSED AND COLLECTED

2. FINDING:

As noted in prior audits covering the period July 1, 1985, through June 30, 1993, the board has not ensured that all fees from parolees are properly assessed and collected. Management has concurred with the prior findings. However, the problems still exist. In response to the last audit, management stated:

Audits will be scheduled on no less than a quarterly basis to ensure that policies are followed in the fee assessment and collection procedure. . . . The Board's policy will be revised to require parolees who claim to be unemployed to furnish the parole officer with written documentation from the Tennessee Department of Employment Security concerning their efforts to secure gainful employment. . . . The Division of Parole Field Services will explore the possibility of an interagency agreement with the Department of Revenue to collect fees and maintain payment information and reports on such collection.

Section 40-28-201, *Tennessee Code Annotated*, requires any person placed on parole to contribute up to \$30.00 per month to the Criminal Injuries Compensation Fund and \$5.00 per month toward the cost of his or her supervision and rehabilitation, based on ability to pay. This section further requires the Tennessee Board of Paroles to investigate the financial and other circumstances of any person placed on parole to determine the person's ability to pay. Section 707.10 of the Tennessee Board of Paroles' *Administrative Policies and Procedures* states that the parole officer shall require the parolee to provide proof of income and expenses, and that if the parolee's monthly net income is less than \$100.00, the parole officer will request a partial or total fee exemption.

In violation of the board's procedures, a monthly reporting form was not present in four of 44 (9.1%) parolee files tested, and seven of 47 (14.9%) parolee files tested did not have a completed "Criteria of Assessment of Fee" form with the parolee's net income indicated. Furthermore, six of 27 (22.2%) parolee files tested contained no documented reason for a fee waiver, or the waiver was not approved by the Board of Paroles.

Section 707.10 of the Tennessee Board of Paroles' *Administrative Policies and Procedures* states, "The parole officer shall take appropriate action as necessary to enforce payments to the [applicable funds]." However, for four of nine (44.4%) parolee files indicating deficient payments, there was no documentation that the parole officer had attempted all suggested enforcement procedures to collect the overdue fees.

RECOMMENDATION:

The Board and the executive director should ensure that all parole officers properly assess parolee fees and take appropriate action to enforce fee collection. Verification of income and expenses should be documented in the parolees' files. The parole officers should document their follow-up regarding unpaid fees. One or more persons in the regional offices should be assigned specific responsibility for ensuring that parole officers follow the Tennessee Board of Paroles' *Administrative Policies and Procedures*, and the central office should monitor compliance with the guidelines.

MANAGEMENT'S COMMENT:

We concur. The Division of Field Services has implemented Board of Paroles Policy 703.04 (11-30-95), entitled *Assessment and Collection of Fees*, and 405.01 (11-30-95), *Deposit of Fees Collected from Parolees*. We have a specialized case review by case supervisors that pertains only to fee documentation and collection. Field Services, Central Office, has a new position, a full-time auditor, that audits case files on a routine basis to ensure compliance with policy. Both Policies 703.04 and 405.01 are being rewritten to make clear the responsibilities of supervisors so they can ensure that the parole officers follow policy. These responsibilities are also stated in Board of Paroles Policy 701.02, *Responsibilities of Parole Officer Supervisors* (6-03-96), and Board of Paroles Policy 102.06, *Policy Monitoring and Compliance* (9-15-95).

AS NOTED IN AUDITS FOR THE PAST FOUR YEARS, EMPLOYEE TRAINING
WAS NOT PROVIDED IN ACCORDANCE WITH BOARD POLICY

3. FINDING:

As noted in prior audits covering the period July 1, 1989, through June 30, 1993, the Tennessee Board of Paroles has not provided training to employees in accordance with its policy. Management concurred with the previous finding and stated that a director of training was hired March 1993 and appropriate steps had been taken to ensure compliance with training requirements. An examination of twenty-six employees' training histories for

the period of July 1, 1994, to June 30, 1995, revealed that eleven (42%) had not completed the minimum training requirements.

Section 303.10 of the Tennessee Board of Paroles' *Administrative Policies and Procedures* states:

All full-time professional employees shall be provided at least 40 hours of training annually. . . . All full-time clerical and support employees shall be provided at least 16 hours of training annually.

Training is necessary to ensure that employees receive information about new theories and techniques, have an opportunity to discuss job-related issues, and learn professional development skills.

RECOMMENDATION:

A detailed training plan should be developed and implemented to ensure that employees receive the training hours required to obtain and maintain competency in their jobs. This plan should be structured to address the specific needs of each employee. In addition, employees should be required to sign up for a certain number of hours of training when submitting the "Training Request Form" each year, and training histories should be periodically reviewed to verify that the requirements are being met.

MANAGEMENT'S COMMENT:

We concur. At present, a full-time Training Director is on staff. The Training Division now has three full-time Regional Training positions, with two positions now serving the Field Services Division full-time. The implementation of a decentralized training staff and the inclusion and utilization of TDOC's Training Academy should assist in meeting our training requirements more efficiently. Training coordinators are being used to assist in the delivery of training and/or monitoring of all source sessions. Training has implemented an updated recordkeeping system which allows us to furnish quarterly reports of employee training hours. This report will alert all staff of how many hours have been credited, how many lack training, and the remaining time allowed to acquire said hours.

A major goal is to provide consistent training to all staff in their field. To accomplish this objective, a training program at the Tennessee Correctional Academy has been implemented. All new parole officers go to the academy for their forty preservice hours. All other parole officers are required to attend the academy for twenty hours of their yearly quota. A plan for hearing officers and their supervisors will be developed. Some training can be utilized by staff in other divisions.

Compliance Report

April 4, 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 Board of Paroles' 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 Tennessee Board of Paroles is the responsibility of the board'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 Board of Paroles complied with the provisions referred to in the preceding paragraph, except for one instance 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 board'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

