

Department of Commerce and Insurance

**For the Years Ended
June 30, 1997, and June 30, 1996**

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March 2, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Douglas Sizemore, Commissioner
Department of Commerce and Insurance
Fifth Floor, Davy Crockett Tower
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Commerce and Insurance for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Commerce and Insurance is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Commerce and Insurance's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
98/047

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Commerce and Insurance
For the Years Ended June 30, 1997, and June 30, 1996

AUDIT SCOPE

We have audited the Department of Commerce and Insurance for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of electrical inspections, electrical permit fee collections, burial services, licensing of insurance agents, securities, consumer affairs, management information systems, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Need to Improve Electrical Inspection Procedures**

Inspectors are allowed to collect permit fees and to issue inspection reports. However, the inventory listing of permits and inspection reports issued is not regularly reconciled with permit fees received and with inspection fees paid to inspectors. Inspectors's reports are not evaluated timely (page 4).

Issuing Agent Misappropriated Funds

An issuing agent misappropriated more than \$27,000. This theft was possible because the department's controls over permit fee collections and permit issue agents' subsequent collection of those fees were inadequate (page 7).

Inadequate Monitoring of Cemetery Companies*

When cemeteries either pay late or do not pay registration fees, incorrect penalties are assessed. Additionally, the Burial Services Board did not assess the correct penalties for cemeteries that did not submit the required reports or meet trust requirements (page 9).

Inadequate Refunding Policies and Procedures and Records of Pending Matters

The Agent Licensing section did not refund retaliatory fees when overpayments were made. Also, the division does not maintain adequate records of certification documents and/or fees received that are placed in pending (page 11).

* 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 Commerce and Insurance
For the Years Ended June 30, 1997, and June 30, 1996

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Department of Commerce and Insurance

For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Commerce and Insurance. 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.

BACKGROUND

The mission of the Department of Commerce and Insurance is to serve Tennesseans by efficiently and effectively providing a fair, flexible, and positive regulatory environment for consumer service industries.

The Department of Commerce and Insurance is headed by a commissioner who reports directly to the Governor. The commissioner is assisted by two deputy commissioners, a legal services section, an internal audit section, and seven divisions. Below is a description of each division.

The Division of Administration is the central planning and coordinating division of the Department of Commerce and Insurance. It is responsible for the coordination of all budgeting, recording, and summarizing activities within the department.

The Division of Insurance is responsible for enforcing all insurance laws of the state and for supervising all life, casualty, and other insurance companies authorized to transact business in Tennessee.

The Division of Fire Prevention initiates statewide fire prevention programs; investigates the origin and circumstances of fires; inspects liquefied petroleum gas installations, fireworks dealerships, mobile home construction, and gasoline bulk plants and prosecutes violators of the

pertinent statutes; supervises electrical inspections; and inspects public buildings for fire safety. The staff develops and maintains extensive public assembly and specialized training programs.

The Division of Securities is responsible for enforcing all state laws pertaining to securities dealers and salesmen.

The Division of Consumer Affairs is responsible for enforcing the Consumer Protection Act. The division receives consumer complaints and inquiries, investigates them, and takes corrective action, if necessary. In addition, the division is responsible for registering health clubs that do business in Tennessee.

The Division of Regulatory Boards is responsible for various boards and commissions. In general, these boards and commissions license and regulate the professions in Tennessee subject to regulation, except those related to health care and protection of the environment. The Governor selects the members for appointment to the various boards from lists of names submitted by trades and professions. The charges and fees the boards collect are deposited into the state's general fund, from which the regulatory boards receive appropriations to cover their operating costs.

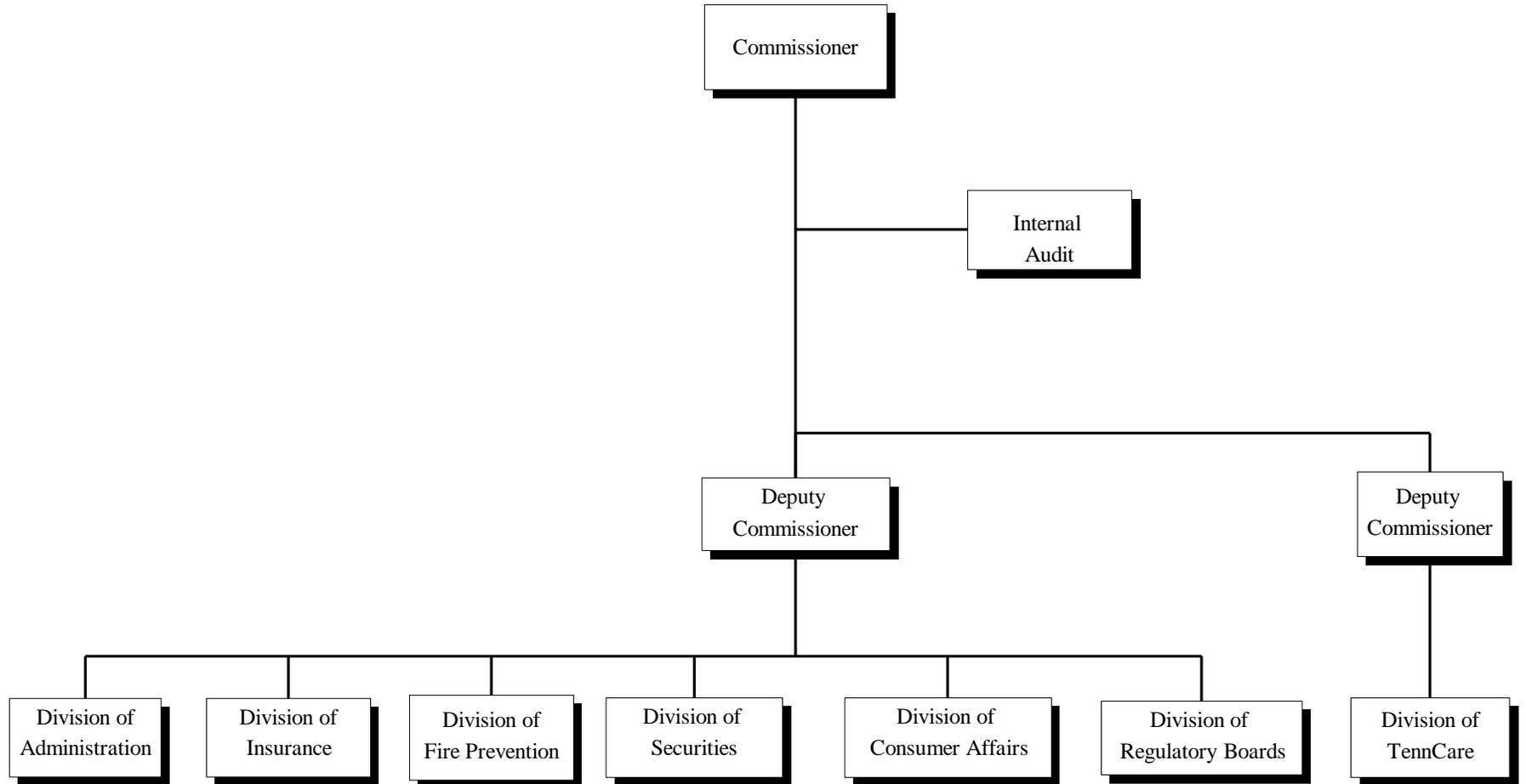
The Division of TennCare provides financial oversight of all TennCare managed care organizations (MCOs). The division's duties include examining and monitoring the MCOs for compliance with contractual requirements relating to financial responsibility, stability, integrity, and management operations.

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

AUDIT SCOPE

We have audited the Department of Commerce and Insurance for the period July 1, 1995, through June 30, 1997. Our audit scope included review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of electrical inspections, electrical permit fee collections, burial services, licensing of insurance agents, securities, consumer affairs, management information systems, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**DEPARTMENT OF COMMERCE AND INSURANCE
ORGANIZATION CHART**



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

ELECTRICAL INSPECTIONS

The objectives of our review of the electrical inspection controls and procedures in the Division of Fire Prevention were to determine whether

- inspectors were evaluated in a timely manner,
- follow-up inspections were performed in a timely manner,
- permit fees collected were reconciled with inspection forms, and
- inspectors took the National Certified Exam for one- and two-family dwellings.

We interviewed key personnel to gain an understanding of the department's procedures and controls over electrical inspections. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of electrical inspections, inspector evaluations, reconciliations, and inspector files.

We determined that procedures for the electrical inspection process need to be improved, as discussed in finding 1.

1. Electrical inspection procedures need to be improved

Finding

The department contracts with individuals in each county to inspect electrical wiring of construction and remodeling projects. Before undertaking electrical work, building contractors or other individuals must buy a permit from an inspector, a power supplier, or a qualified agent. The issuing agent remits the money to the department. When the electrical work is completed, an inspector performs the inspection and completes a report. The inspection report is matched with the permit, and the inspector is paid 80 percent of the permit fee. If the electrical work is not performed and inspected within two years, the contractor or other individual must purchase another permit.

As noted in the five prior audits covering the period July 1, 1986, through June 30, 1995, the department does not have adequate controls over the collection of electrical inspection and permit fees. Although management has concurred with the finding each year, problems remain.

Inspectors are allowed to collect permit fees and to issue inspection reports. Because they do both, they could keep the money from the permit sales and perform the inspections, bypassing

the department. Consequently, the department would lose its 20 percent of the permit fees. Also, if the electrical work is not performed within the two years allowed, inspectors could submit falsified inspection reports to collect inspection fees and the individual or building contractor could bypass purchasing another permit.

Because former inspectors had committed this type of fraud, management attempted to segregate duties to the fullest extent practical. To compensate for the inability to fully segregate these duties, management implemented a system of prenumbered permit and inspection forms and a quarterly reconciliation of inspectors' forms with fees collected and paid. A reconciliation process could compensate for the lack of segregation of duties, but the current reconciliation process is not adequate. Although the inspectors are required to submit a quarterly inventory report of their form books, the Electrical Inspection Section only randomly reconciles the inventory report of form books with permit fees received. In addition, the inspectors' inventory reports do not provide enough information for an adequate reconciliation. The reports do not provide beginning or ending inventory and require inspectors to list only entire books of forms they have on hand, not the specific range of prenumbered forms used or on hand. If the inspectors used forms for unauthorized purposes, the department would not detect it.

Memorandum EL-95-1, dated January 19, 1995, states that the supervisor shall select for each inspector at least two inspection reports completed within the two weeks prior to the inspector's evaluation and verify that the electrical approval/rejection decal was properly completed and applied. The Electrical Inspector Supervisors do not follow up inspections as required by EL-95-1. For two of the nine inspectors whose files were tested (22%), the supervisor did not review the proper number of inspections.

Recommendation

The department should strengthen procedures for electrical inspections. The department should perform complete and timely reconciliations of the inspectors' inventory reports. Each inspector should provide the department a specific statement of beginning inventory, permits or inspection forms issued, new permits or inspection forms received from the department, voided permits or inspection forms, and ending inventory on hand. The department should compare the beginning inventory to the previous ending inventory, permits issued to fees collected, inspection reports issued to fees paid to inspectors, and new forms received to forms distributed. In addition, the department should implement procedures to ensure supervisors perform the proper number of follow-up inspections.

Management's Comment

We concur. The department has promulgated rules for approval by the Office of the Attorney General to address issue agents, permit fees, and permit expiration and no longer allows inspectors to act as issue agents to issue electrical inspection permits to customers. The department is in the early implementation stages of an improved computer application that will

allow for timely, accurate reconciliation of permits issued to fees collected, permits issued to agents to permits remitted to the department, permits issued to issue agents to available inventory, permits remitted to the department to permits outstanding by issue agent, and permits inspected to permits awaiting inspection. The system will also create reports providing information of permits within two months of expiration, untimely remittance patterns by issue agent, untimely reporting by inspector, and a number of other tools to enhance the management of the program. The department has a newly appointed Director of Electrical Safety who has emphasized the section's policies on supervisory review of the electrical inspections performed by the contracted inspectors.

ELECTRICAL PERMIT FEE COLLECTIONS—SPECIAL INVESTIGATION

On August 1, 1997, the Department of Commerce and Insurance's Internal Audit Section informed the Division of State Audit of the possible misappropriation of electrical permit fees by a Rutherford County issuing agent. The agent had allegedly withheld funds from collections of electrical permit fees, funds that she should have submitted to the department. We reviewed this matter in conjunction with the department's Internal Audit Section and the Tennessee Bureau of Investigation for the period January 1, 1997, through July 31, 1997.

The objectives of the review were

- to determine whether the issuing agent submitted electrical permit fees to the department,
- to review the internal controls over the issuance of permits and the agent's remittance of fees to the department,
- to refer any findings to the Office of the Attorney General and the District Attorney General, and
- to report any findings to the department and recommend appropriate actions to correct any noted deficiencies.

The review included examinations of relevant documents and interviews with department inspectors, supervisory staff, and management personnel.

As reported in the department's internal audit report dated January 22, 1998, the issuing agent, Ms. Vickie L. Richardson, doing business as V&L Enterprises, had misappropriated \$27,326.60 in permit fees. According to the internal audit report, the agent's bank records indicated that approximately \$8,450 of the fees she collected for the state had been withdrawn or used to pay personal creditors. The review of controls over permit fee collections and issuing agents' subsequent submission of fees to the department revealed four areas of concern which are addressed below.

2. Weaknesses in controls over issuing agents allowed misappropriation to go undetected

Finding

The absence of certain controls in the Housing and Electrical Section allowed the misappropriation of \$27,326.60 and delayed its detection. The following areas lacked sufficient controls:

- Complaints were not immediately investigated. Contracted electrical inspectors had complained to management several times about the issuing agent's late submissions of electrical permit fees because they had not received payment for final inspections relating to those permits. The department's procedures did not allow for the release of such payments until final inspection sheets were matched with permit issuances and fees received from issuing agents. Therefore, it appears that procedures were effective but were negated by the lack of an immediate investigation.

According to the review, the inspectors first complained about the agent's delinquent submission of permit fees in March 1997. However, the Director of Housing and Electrical Section did not take any action regarding these complaints until August 1, 1997. At that time, he requested that all pertinent records be retrieved from the agent's home. These records were subsequently reviewed and revealed that the agent had not remitted to the state \$26,566.60 representing 963 permits issued from June 12 through August 1, 1997. (Policy requires that the fees be remitted biweekly.) An additional \$760.00 had been collected by the agent, but the 40 corresponding permits had never been issued.

- The relationship between the agent and the former director was not disclosed. The director who had appointed Ms. Richardson to act as an issuing agent in July 1995 was the agent's father. Since the director was responsible for monitoring issuing agents to ensure they remitted the correct amount, this relationship appeared to violate the department's conflict-of-interest policy. As a result of this violation, the department revised its policy effective October 12, 1998. The new policy addresses issues of disclosure and family relationships.
- Revenue from issuing agents was not reconciled with permits issued. The department did not have manual or computer reconciliations of permit inventories with revenues received or inspections with permits. These reconciliations are essential controls needed to account for permits and revenues and to monitor permits outstanding by issuing agents.
- Issuing agents were working for the department without written agreements. The department lacked written agreements with issuing agents. Without formal contracts, issuing agents may not be clear on their responsibilities and department policies. As a

result of this review, the department has developed a contract for issuing agents and implemented it in September 1997.

The agent's contract with the department was terminated August 1, 1997. This matter was subsequently referred to the District Attorney General of the Sixteenth Judicial District (Rutherford County). On April 8, 1998, the former issuing agent pled guilty to theft of property over \$10,000. Pursuant to the order of judgment, she was given a suspended sentence, placed on probation for six years, and ordered to make monthly \$400 restitution payments to the department. To date, the former issuing agent has made restitution payments totaling \$800. Because of delinquent payments, the department has notified the Murfreesboro Corrections Office.

The Director of the Housing and Electrical Section resigned April 10, 1998.

Recommendation

Management should develop procedures for reconciling permit inventories with fee collections and inspections. Permit fee collections should be monitored for accuracy and timeliness.

Management of the Division of Fire Prevention should ensure that all issuing agents sign and adhere to the agent contract, implemented in September 1997.

Management of the Housing and Electrical Section should ensure that complaints regarding collections or similar matters are investigated immediately. Management should also notify the Director of Internal Audit when such issues arise.

Management's Comment

We concur. Subsequent to the investigation by the department's Internal Audit staff, management of the Fire Prevention Division communicated procedures to staff to immediately report untimely remittances to the Administrator of the Permits and Licenses Section and to the Director of Internal Audit. As a result of this policy, two additional agents have been investigated with full funds recovered in both cases. Additionally, all issue agents have now signed a contract with the department stipulating the terms of participation in the electrical permit issuance program. The department has issued a revised conflict-of-interest policy which requires the disclosure of familial relationships that could create a conflict in the performance of an employee's duties. The department has established a deadline of December 31, 1998, for all employee disclosures to be filed with the department's personnel office.

As noted in the response to finding 1, the department is in early implementation stages of an improved computer application to enable a variety of timely reconciliations to aid in the management of the electrical program. Permits are no longer issued to inspectors by the

department, and all permit inventory held by inspectors has been returned to the department and was either destroyed or appropriately reissued to a duly authorized issue agent.

BURIAL SERVICES

The objectives of our review of the burial services controls and procedures in the Department of Commerce and Insurance were to determine whether

- cemetery company files contained the proper quarterly and annual reports,
- cemetery company files contained the proper trust agreements, and
- the renewals of registration certificates were received in a timely manner and, if not, whether proper penalties were assessed.

We interviewed key personnel to gain an understanding of the department's procedures and controls over burial services. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of cemetery files and renewals for registration certificates.

We determined that the Burial Services Board is not adequately monitoring cemetery companies, as discussed in finding 3.

3. The Burial Services Board is not adequately monitoring cemetery companies

Finding

As noted in the prior audit covering the period July 1, 1993, through June 30, 1995, the Board of Burial Services does not have adequate procedures for monitoring cemetery companies. All nine of the cemetery files tested (100%) revealed that owners either were late paying or had not paid their registration fees. Of these nine cemetery owners, two had not paid registration fees since 1994, and four were late paying their renewal fees. However, the board had not assessed these owners appropriate penalties.

Section 46-1-104(a-c), *Tennessee Code Annotated*, states that registration certificates expire at the end of the registrant's fiscal year following the certificate's issuance. Renewals of registration certificates may be applied for any time during the two months before the certificate's expiration date. Fees for late renewals are set by the commissioner for each month (or fraction thereof) the renewal is delayed. Section 46-1-103(a) notes that it is a Class C misdemeanor for a cemetery to operate without a certificate.

Although three of ten files tested (30%) did not contain 1997 annual reports from the trustees of the cemetery improvement care funds, no penalties were assessed. *Tennessee Code Annotated*, Section 46-2-202, requires each cemetery company to file with the commissioner a report of its condition within 75 days of the end of the calendar or fiscal year. The trustee of the

company's improvement care fund must also file a trust fund report with the commissioner within 45 days of the end of the calendar or fiscal year. If the owner of the cemetery company and/or the trustee of the improvement care fund fails to file the annual report, it is a Class C misdemeanor. The commissioner is required to notify the cemetery company owner by registered letter if either report is not received and may order a conditional suspension of the certificate if the report is not received within 15 days of the letter's receipt. Section 46-2-410 sets forth the standard penalties for late filings.

The penalty fees for two cemeteries were waived by the director of Burial Services. No approval for the waivers was obtained from any source; the waivers were not documented; and legal counsel was not consulted.

The board's failure to monitor cemetery companies' compliance with state law and to maintain adequate controls over fee assessments resulted in lost registration and penalty fees.

Recommendation

Management of the Board of Burial Services should follow policies and procedures for monitoring cemetery companies and should assess penalties to encourage compliance with state law. The board should also maintain adequate controls over fee assessments to ensure appropriate collection of fees.

Management's Comment

We concur. Since the completion of the audit, the staff of the Burial Services Board has developed procedures utilizing the Regulatory Boards System (RBS) to monitor renewal fee payments and improvements care fund report filings. Reports are generated monthly by RBS based on Profession Specific Data (PSD) information listing companies to which renewals were sent. These reports are then reviewed to ensure that fees are paid timely and where appropriate, penalties are assessed and collected. Penalties can be waived only by the Executive Director in consultation with legal counsel and the Assistant Commissioner for the Regulatory Boards Division and the waiver justification is now documented in RBS. Licensees are notified by letter when renewals or reports are late and a monthly report is prepared and submitted to the Commissioner of the Department of Commerce and Insurance and the Assistant Commissioner for the Regulatory Boards Division.

INSURANCE AGENT LICENSING

The objectives of our review of the controls and procedures for the Agent Licensing section in the Division of Insurance were to determine whether

- procedures for safeguarding unissued licenses, permits, and/or certificates were adequate,
- duties within the Agent Licensing section were properly segregated,
- policies and procedures within the Agent Licensing section were adequate and based on current state law,
- the cashier's records were reconciled with Agent Licensing ledgers,
- fee collection procedures were adequate, and
- agent files were properly maintained.

We interviewed key personnel to gain an understanding of the department's procedures and controls over agent licensing. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of agent files, license applications, and reconciliations between the department's records and Agent Licensing's ledger.

We determined that the Department of Commerce and Insurance's refunding policies and procedures are not adequate for Agent Licensing. In addition, Agent Licensing does not maintain adequate records of pending items, as discussed in finding 4.

4. Agent Licensing does not have adequate refunding policies and procedures and does not maintain adequate records of pending items

Finding

The Department of Commerce and Insurance has written refunding policies and procedures. However, management of the Agent Licensing section in the Division of Insurance was not aware of the department-wide refunding policies and procedures, nor did the division have its own written refunding policies and procedures.

Two of eight applicants whose nonresident applications were tested (25%) overpaid \$50 each in retaliatory fees. (Retaliatory fees are additional fees charged to nonresident applicants to obtain an insurance license and/or to renew a license in Tennessee. These fees are updated periodically based on what the particular state charges Tennessee residents for the same service.) However, no effort was made to notify the applicants or to refund their overpayments.

Also, because Agent Licensing did not maintain adequate records of pending items, the department's record of the amounts received and deposited each day for certifications could not always be reconciled with the division's ledger. For four of 16 daily totals sampled, the amount received and deposited did not agree with the division's ledger.

Recommendation

Management of Agent Licensing should either adopt the department-wide refunding policies or develop its own written refunding policies and procedures (within the guidelines set forth by the department). Also, the division should keep adequate records of all items placed in pending. Agent Licensing's ledger should be reconciled with the department's records each day, and the reconciliation documented.

Management's Comment

We concur. The Agent Licensing section is now familiar with the departmental policy regarding refunds and has implemented that policy. Due to the excessive volume of licensed insurance agents and the automation of remittance processing, identifying overpayments is labor intensive and cost prohibitive; however, random reviews are now performed and when the retaliatory amount paid is in excess of the required fee, a refund is issued to the licensee. Management is evaluating options to adequately inform licensees who are subject to a retaliatory fee of the appropriate fee amount either through written communication, the departmental website, or on the application and renewal forms. With the implementation of the Regulatory Boards System (RBS) in the Agent Licensing section, pending items are easily identified and deposits are properly reconciled to certifications and pending fees.

SECURITIES

The objectives of our review of controls and procedures for broker-dealer and securities registration in the Division of Securities were to determine whether

- the division had complied with statutes governing the registration and renewal processes for broker-dealers and securities and had collected the appropriate fees,
- duties within the division were adequately segregated and whether internal controls were adequate,
- the division had complied with statutes governing issuer refunds for both broker-dealer and securities and had refunded the proper amounts,
- policies and procedures within the division were adequate and based on current state law, and

- registration withdrawals for broker-dealers became effective within guidelines set forth by statute.

We interviewed key personnel to gain an understanding of the department's procedures and controls over broker-dealer registration and securities registration. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of broker-dealer registrations and securities registrations.

We had no findings related to securities; however, other minor weaknesses came to our attention and have been reported to management in a separate letter.

CONSUMER AFFAIRS

The objectives of our review of the controls and procedures for health club registrations and consumer complaints in the Division of Consumer Affairs were to determine whether

- procedures for safeguarding unissued licenses, permits, and/or certificates for health club registration were adequate,
- health club registrations were in accordance with state law,
- consumer complaints were handled properly,
- appropriate action was taken when respondents to consumer complaints failed to respond to inquiries from the Division of Consumer Affairs, and
- policies and procedures within the division were adequate and based on current state law.

We interviewed key personnel to gain an understanding of the division's procedures and controls over health club registrations and consumer complaints. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of health club registrations and consumer complaints.

We had no findings related to the Division of Consumer Affairs; however, other minor weaknesses came to our attention and have been reported to management in a separate letter.

MANAGEMENT INFORMATION SYSTEMS

The objectives of our review of management information system controls and procedures in the Department of Commerce and Insurance were to determine whether

- policies and procedures provided a clear assignment of responsibilities and segregation of functions;
- relevant policies and procedures had been placed in operation;

- computer resources were planned, managed, and utilized effectively;
- an adequate business recovery plan had been implemented;
- adequate security was in place over the Regulatory Board System (RBS) system;
- adequate controls were in place over RBS program changes; and
- RBS payments were recorded, correct, supported, and properly assigned.

We interviewed key personnel to gain an understanding of the department's procedures and controls over management information systems. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of RBS payments and users' access to sensitive accounts.

We had no findings related to management information systems; however, other minor weaknesses came to our attention and have been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate its systems of internal accounting and administrative control annually and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the Department of Commerce and Insurance's compliance with the Financial Integrity Act were to determine whether

- the department's reports were filed in compliance with the act,
- documentation to support the department's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions had been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act reports were submitted on time and that support for the reports was adequate.

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 of Commerce and Insurance filed its report with the Department of Audit on October 16, 1997. 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 of Commerce and Insurance had corrected previous audit findings concerning the failure of the Board of Funeral Directors and Embalmers to obtain all necessary information from applicants and the failure to follow timesheet and leave approval procedures.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the need to improve electrical inspection procedures and Burial Services Board monitoring procedures. These findings have not been resolved and are repeated in the applicable sections of this report.

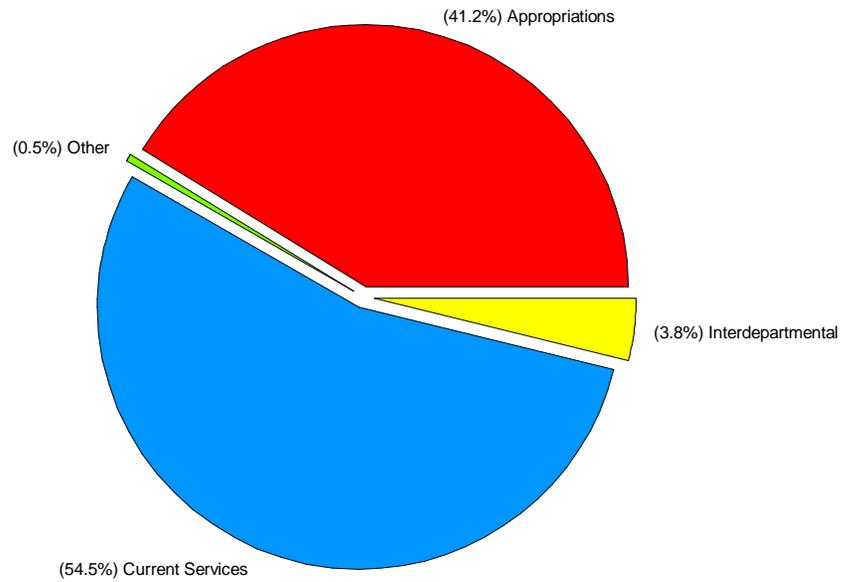
APPENDIX

DIVISIONS AND ALLOTMENT CODES

The Department of Commerce and Insurance has the following divisions and allotment codes:

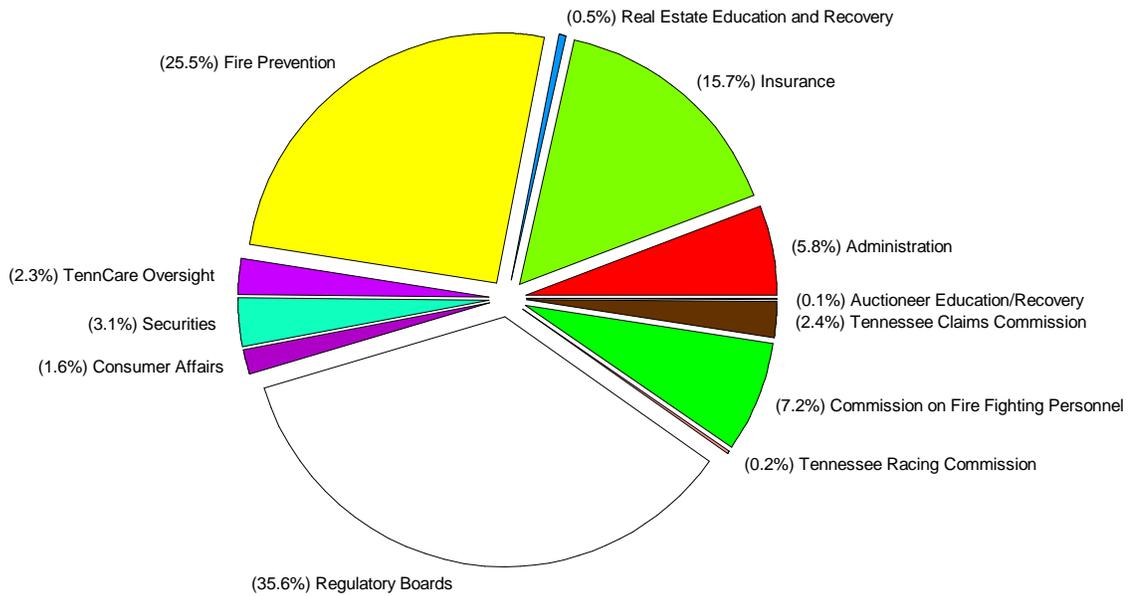
335.01	Division of Administration
335.02	Division of Insurance
335.03	Division of Fire Prevention
335.04	Division of TennCare Oversight
335.05	Division of Securities
335.06	Division of Consumer Affairs
335.09	Tennessee Racing Commission
335.10	Division of Regulatory Boards
335.15	Real Estate Education and Recovery
335.16	Auctioneer Education and Recovery
335.17	Tennessee Board of Pharmacy
335.27	Tennessee Motor Vehicle Commission
335.28	Tennessee Commission on Fire Fighting Personnel
335.30	Tennessee Claims Commission

Department of Commerce and Insurance Funding Sources
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Commerce and Insurance

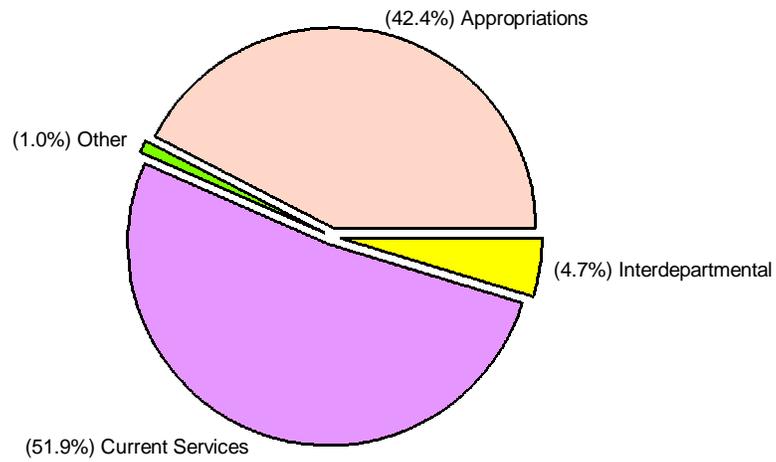
Department of Commerce and Insurance - Expenditures by Allotment and Division
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Commerce and Insurance

Department of Commerce and Insurance Funding Sources

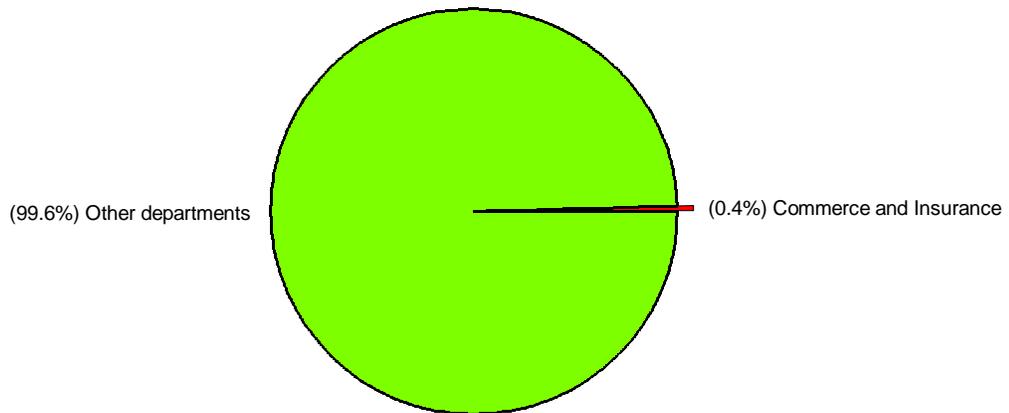
Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Department of Commerce and Insurance

General Fund Expenditures

Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Department of Commerce and Insurance