

Department of Economic and Community Development

**For the Year Ended
June 30, 1998**

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April 6, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Bill Baxter, Commissioner
Department of Economic and Community Development
Eighth Floor, Rachel Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Economic and Community Development for the year ended June 30, 1998.

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 Economic and Community Development is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no audit findings. We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Economic and Community Development's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/rm
99/035

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Economic and Community Development
For the Year Ended June 30, 1998

AUDIT SCOPE

We have audited the Department of Economic and Community Development for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of small business energy loans, deferred revenue, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. 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

The audit report contains no findings.

"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 Economic and Community Development
For the Year Ended June 30, 1998

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Department of Economic and Community Development For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Economic and Community Development. 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

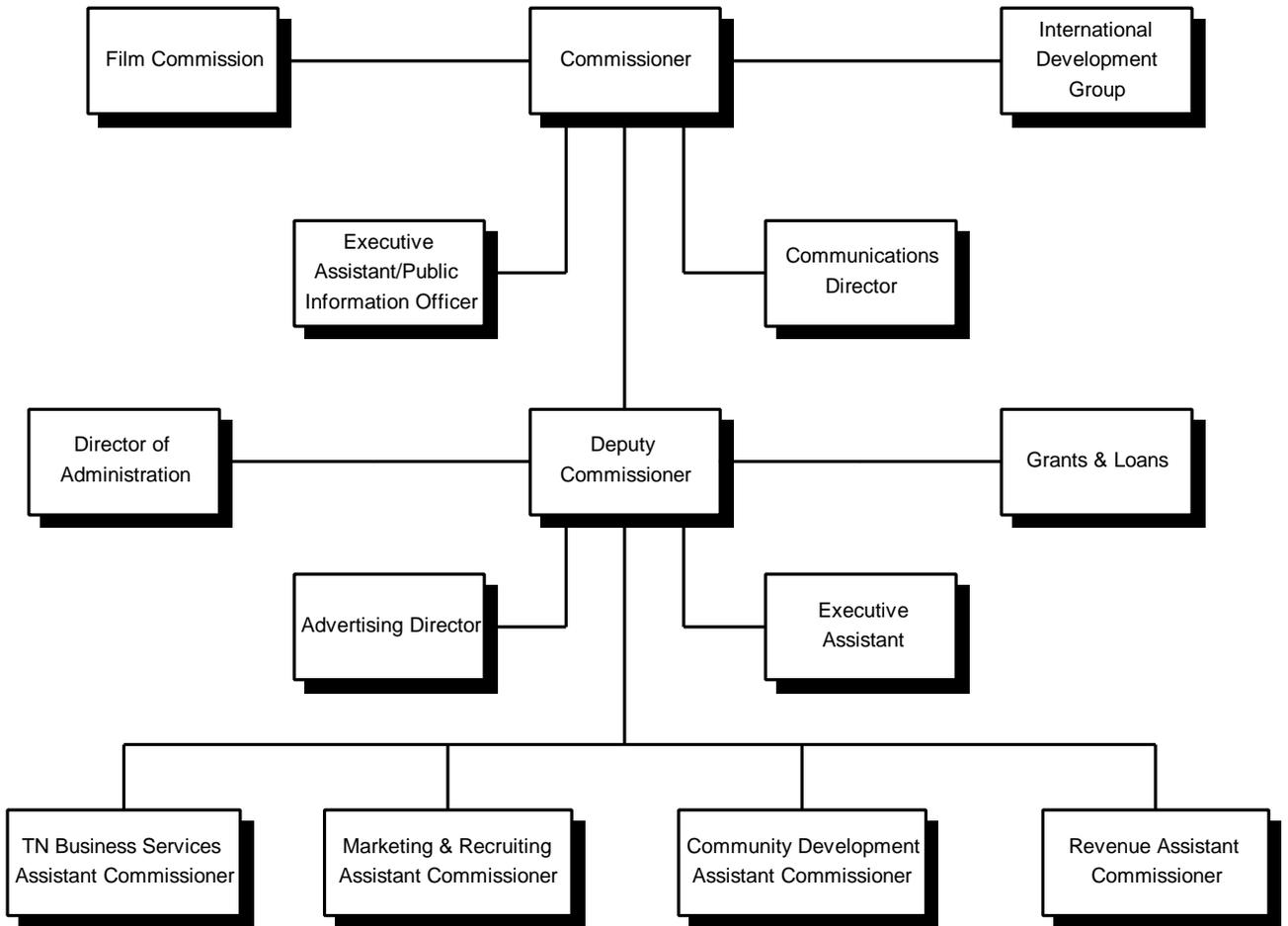
The mission of the Department of Economic and Community Development is to increase job opportunities throughout Tennessee. The department’s goals are to enhance community attractiveness and readiness for creating job opportunities; to create and promote business opportunities to entrepreneurs, existing industries, and new firms; and to increase and improve those economic growth opportunities for all new and existing firms.

The department’s mission is to assist local communities in capitalizing on economic development opportunities; marketing that state; recruiting environmentally responsible new industries; assisting existing firms and increasing export trade opportunities for Tennessee business and industry.

The department’s vision is to build the nation’s most business friendly state with the best, most professional people, providing services that exceed customer expectations on a daily basis.

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

Department of Economic and Community Development



AUDIT SCOPE

We have audited the Department of Economic and Community Development for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of small business energy loans, deferred revenue, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. 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.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Economic and Community Development is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Economic and Community Development is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined that the Community Development Block Grants (CDBG) program within the Department of Economic and Community Development was material to the CAFR and to the Single Audit Report.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to this major federal award program, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. The opinion on the financial statements is qualified. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. The Tennessee Single Audit Report for the year ended June 30, 1998, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We had no findings related to the Community Development Block Grants program; however, other minor weaknesses came to our attention and have been reported to management in a separate letter.

SMALL BUSINESS ENERGY LOANS

The department maintains the Small Business Energy Loan Program under the Division of Energy. Our objective was to determine whether the department properly protected its security interest in collateral for these small business loans through the timely filing of Uniform Commercial Code (UCC) filing statements. Testwork consisted of comparing the loan date with the dates the UCC statements were filed with the Secretary of State and the county Register of Deeds for a sample of loans made during the audit period.

We had no findings related to small business energy loans; however, a minor weakness came to our attention and has been reported to management in a separate letter.

DEFERRED REVENUE

The objectives of our review of the deferred revenue account the department maintains for the Petroleum Violation Escrow funds were to determine whether

- the deferred revenue account balance on departmental records reconciled with the STARS account balance at year-end, and
- earned revenue was transferred from the deferred revenue account in a timely manner, and whether transactions in the deferred revenue account were adequately supported.

We interviewed key personnel to gain an understanding of the department's procedures and controls, reviewed the documentation supporting all transactions in the deferred revenue account for the audit period, and reconciled the departmental records with the year-end STARS

account balance. We had no findings related to deferred revenue; however, a minor weakness came to our attention and has been reported to management in a separate letter.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
“RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS grant control table upon notification of the grant award, and whether related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and whether indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and controls concerning Policy 20. We had no findings related to Policy 20.

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 Economic and Community Development filed its report with the Department of Audit on September 30, 1998. 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 Department of Economic and Community Development has corrected the previous audit finding concerning the state security interest on energy loans.

OBSERVATIONS AND COMMENTS

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. For the year ending June 30, 1998, the Department of Economic and Community Development filed its compliance report and implementation plan on September 30, 1998.

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 grounds of race, color, or 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 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 has not designated a new monitoring agency for the Executive Branch.

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.

APPENDIX

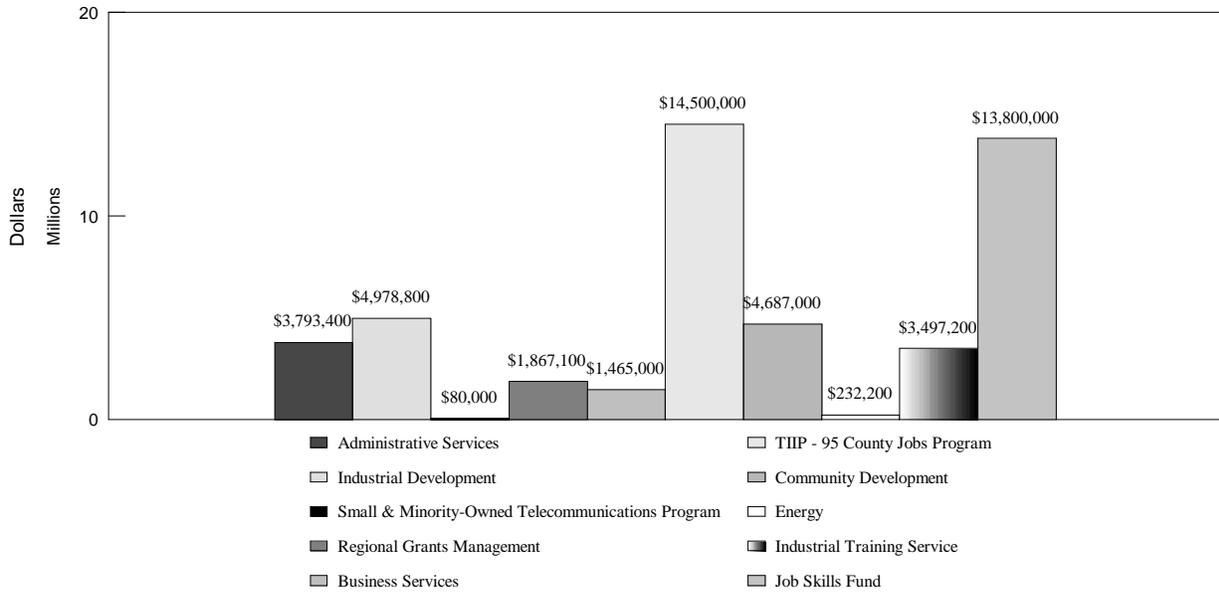
DIVISIONS AND ALLOTMENT CODES

Department of Economic and Community Development divisions and allotment codes:

330.01	Administrative Services
330.02	Industrial Development
330.03	Small & Minority-Owned Telecommunications Program
330.04	Regional Grants Management
330.05	Business Services
330.06	TIIP – 95 County Jobs Program
330.07	Community Development
330.08	Energy
330.09	Industrial Training Service
330.10	Small Business Energy Loan Program
330.11	Local Government Energy Loan Program
330.13	Skills Fund

Economic and Community Development

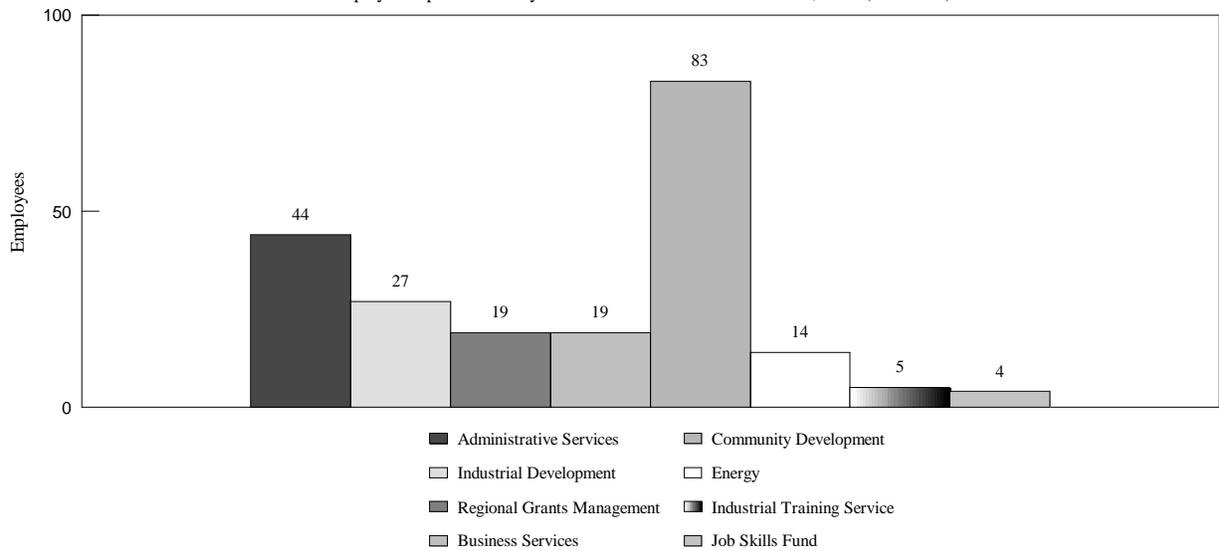
State Appropriations by Division for the Year Ended June 30, 1998 (Unaudited)



Total State Appropriation \$48,900,700
 Source: Economic and Community Development

Economic and Community Development

Employee Representation by Division for the Year Ended June 30, 1998 (Unaudited)



Total all Employees 215
 Source: Economic and Community Development