

**Department of Tourist Development**

**For the Years Ended  
June 30, 1998, and June 30, 1997**

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May 3, 1999

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

The Honorable John A. Wade, Commissioner  
Department of Tourist Development  
320 Sixth Avenue North  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Tourist Development for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. 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 Tourist Development is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

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

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

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ms  
99/047

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Tourist Development**  
For the Years Ended June 30, 1998, and June 30, 1997

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## AUDIT SCOPE

We have audited the Department of Tourist Development for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of disbursements, equipment, payroll and personnel, revenue, grants, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDING

### **Accountability for Equipment Unsatisfactory**

Accountability for equipment needs to be improved. Seven of 60 items tested could not be located and information was not always correct on the Property of the State of Tennessee (POST) property listing (page 4).

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"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

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**Audit Report**  
**Department of Tourist Development**  
**For the Years Ended June 30, 1998, and June 30, 1997**

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**Department of Tourist Development**  
**For the Years Ended June 30, 1998, and June 30, 1997**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

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

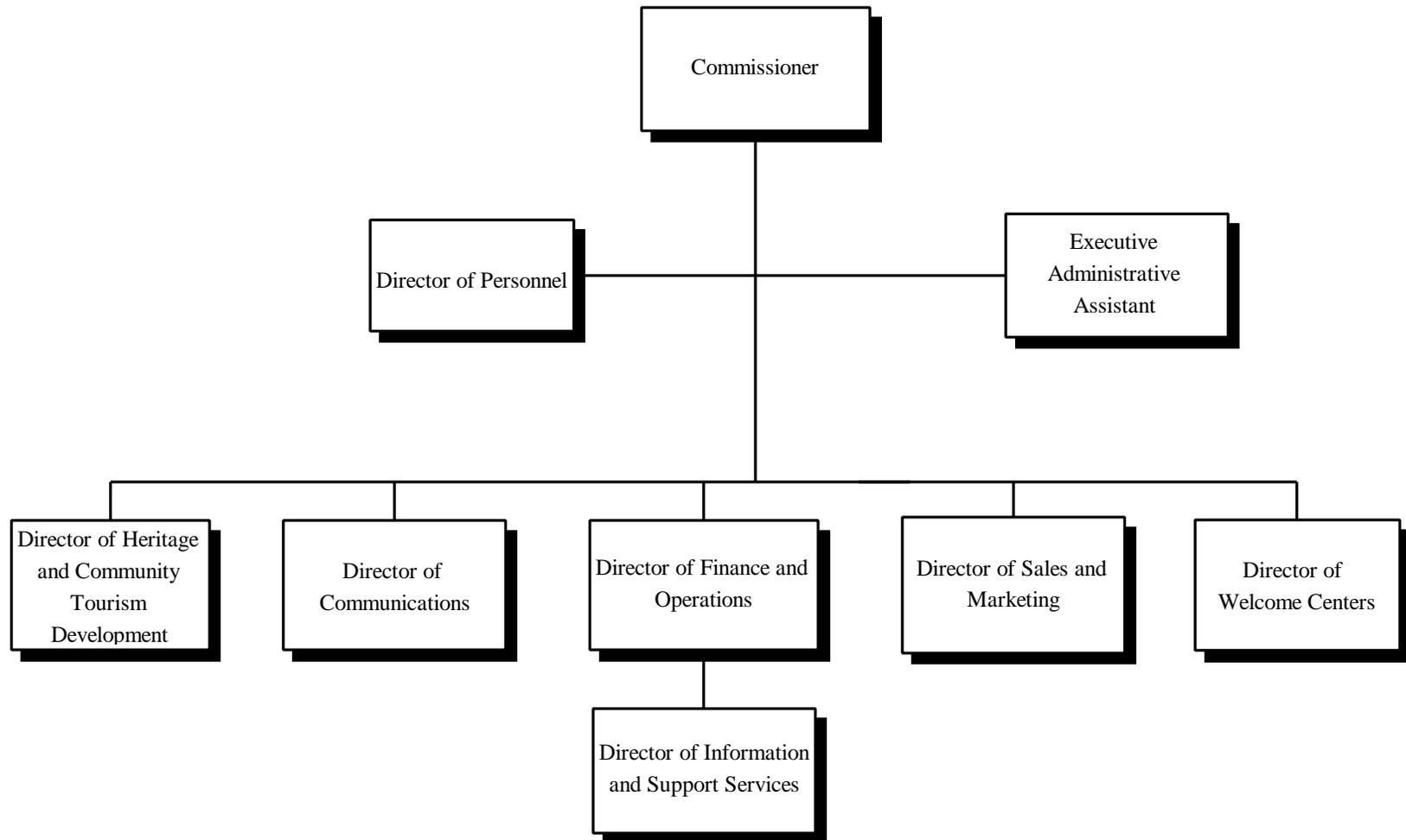
**BACKGROUND**

The mission of the Department of Tourist Development is to promote tourism in Tennessee through various services and marketing programs and to bring steady economic growth to the tourism industry in Tennessee. In order to fulfill this mission, the department has five divisions that work to promote tourism: Sales and Marketing, Communications, Heritage and Community Tourism Development, Information and Support Services, and Welcome Centers.

The Sales and Marketing Division and the Communications Division work to promote Tennessee tourism through advertising in national print and media, participating in travel and vacation shows each year, developing marketing programs, and producing travel articles and other promotional literature about Tennessee. The Heritage and Community Tourism Development Division works with communities throughout the state to create heritage trails, tours, and other attractions to increase Tennessee’s appeal. The Information and Support Services Division responds to more than 500,000 requests for travel information each year. Finally, the Welcome Centers Division operates 13 Welcome Centers that act as contact points for people entering Tennessee and provides information on the state’s attractions, lodging, and other travel-related facilities. The Welcome Centers are open 24 hours a day throughout the year.

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

# DEPARTMENT OF TOURIST DEVELOPMENT



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## AUDIT SCOPE

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We have audited the Department of Tourist Development for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of disbursements, equipment, payroll and personnel, revenue, grants, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### DISBURSEMENTS

The objectives of our review of disbursement procedures and controls were to determine whether

- travel disbursements were properly supported and in compliance with the *Comprehensive Travel Regulations*, and
- departmental records were reconciled monthly with Department of Finance and Administration reports.

We interviewed key personnel to gain an understanding of the department's procedures and controls over travel disbursements and reconciliations. We also reviewed supporting documentation for these procedures and controls. In addition, a sample of travel disbursements was tested. We had no findings related to disbursements; however, some minor weaknesses came to our attention and have been reported to management in a separate letter.

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### EQUIPMENT

The objectives of our review of equipment procedures and controls were to determine whether equipment was properly safeguarded and accounted for.

We interviewed key personnel to gain an understanding of the department's procedures and controls for safeguarding and accounting for equipment. We also reviewed supporting documentation for these procedures and controls. In addition, a sample of equipment items was tested. We determined that the department's fiscal year-end inventory procedures were inade-

quate as discussed in the following finding. In addition to the finding, other minor weaknesses came to our attention and have been reported to management in a separate letter.

### **Accountability for equipment needs improvement**

#### **Finding**

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

- Seven of 60 items tested (11.7%) could not be located.
- The property listing was not updated for items missing during recent annual inventories. The Property of the State of Tennessee (POST) exception listing dated January 20, 1999, included 70 items not accounted for since the year-end June 30, 1997, inventory and 14 items not accounted for since the year-end June 30, 1996, inventory. After the problem was brought to management's attention, the property officer was able to locate some of the items.
- Two of the items tested were supposedly surplused. However, these items had not been correctly recorded as being surplused on the POST system. One of the items was surplused under a temporary tag number rather than the assigned tag number. The other item had not been surplused through POST.
- Information on the property listing was not always correct. The serial number for one item tested and the description for another item tested were incorrect.
- The department does not have a sign-out policy for equipment used away from the assigned location. Three items assigned to the department's warehouse were not physically confirmed because the items were supposedly being used in the field. However, no documentation was available to support this claim.
- One item did not have a state tag attached.

The Department of General Services' *POST User Manual*, Appendix C, Physical Inventory Procedures, states that an annual physical inventory is to be done "prior to the close of the fiscal year." The property officer is to make changes to POST to correct location information and to add items not on the listing. Documentation is to be submitted to the Department of General Services for any items that need to be removed from POST. Also, a letter is to be submitted to the Comptroller of the Treasury for any lost or stolen items.

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

## **Recommendation**

The property officer should ensure that all equipment is tagged and properly identified on POST. Requests to remove equipment that is lost, stolen, or not located during the annual inventory should be promptly submitted to the Department of General Services. Lost or stolen items should also be reported to the Comptroller of the Treasury. POST should be updated for all equipment location changes. The department should establish a policy requiring personnel to sign for equipment that will be used away from the assigned location. The Director of Finance and Operations should monitor equipment recorded on POST to ensure that all equipment is properly accounted for. Appropriate administrative action should be taken if equipment is not properly accounted for.

## **Management's Comment**

We concur. The department is currently investigating the deficiencies indicated in the finding. Progress is being made in locating items that are missing or assigned the wrong location to ensure that all equipment is properly identified on POST. In addition, the department is developing new internal procedures to improve the reporting of equipment which is moved from one location to another and improve accountability by location for the inventory on POST.

These procedures will require an inventory be taken twice each year. One inventory will be taken in the second quarter of the fiscal year and one in the fourth quarter. These procedures will move more responsibility and accountability for the accuracy of the inventories to the locations of the inventory items. Each level of management will review the accuracy of inventories in its areas of responsibility. Each location will also be required to implement a new procedure that requires equipment to be formally signed out of the location where it is assigned and reported to the property officer. This procedure will occur on a continuous basis rather than twice a year. We believe that placing more accountability at the locations where the inventories actually occur will improve the accuracy of our inventory reports.

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## **PAYROLL AND PERSONNEL**

The objectives of our review of payroll and personnel procedures and controls were to determine whether

- payroll disbursements were made only for work authorized and performed,
- payroll disbursements were computed using rates and other factors in accordance with contracts and relevant laws and regulations,
- payroll disbursements were recorded in the correct amount and for the correct period,
- employees were qualified for their positions,

- performance evaluations were completed in the period required, and
- temporary employees who were retirees of the Tennessee Consolidated Retirement System were employed in compliance with *Tennessee Code Annotated*.

We interviewed key personnel to gain an understanding of the department's procedures and controls over payroll and personnel. We also reviewed supporting documentation for these procedures and controls. In addition, a sample of payroll transactions was tested. We had no findings related to payroll and personnel; however, some minor weaknesses came to our attention and have been reported to management in a separate letter.

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## **REVENUE**

The objectives of our review of revenue procedures and controls were to determine whether

- controls over revenue were adequate,
- relevant legal requirements to receive revenues recorded were satisfied, and
- revenue was properly recorded.

We interviewed key personnel to gain an understanding of the department's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. A sample of the revenue was tested. We had no findings related to revenue; however, some minor weaknesses came to our attention and have been reported to management in a separate letter.

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## **GRANTS**

The objective of our review of grants procedures and controls was to determine whether grants were administered and transactions were recorded in accordance with grant provisions and related laws and regulations.

We interviewed key personnel to gain an understanding of the department's procedures and controls over grants. We examined supporting documentation for these procedures and controls. A sample of grant expenditures was tested. We had no findings related to grants; however, some minor weaknesses came to our attention and have been reported to management in a separate letter.

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**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 to 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 Tourist Development'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 have 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 support for the reports was adequate.

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**PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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**APPENDICES**

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**DIVISIONS AND ALLOTMENT CODES**

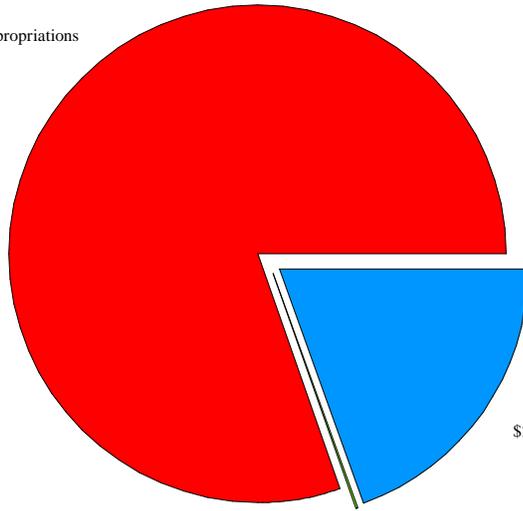
Department of Tourist Development divisions and allotment codes:

326.01	Division of Tourist Development
326.03	Welcome Center Program

## Department of Tourist Development Funding Sources

Fiscal Year Ended June 30, 1998 (Unaudited)

\$9,910,700.00 (80.4%) Appropriations



\$2,397,176.71 (19.4%)

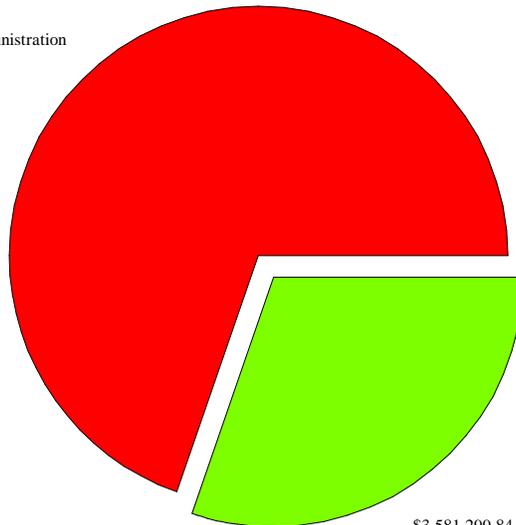
\$18,728.30 (0.2%) Current Services

Source: Department of Tourist Development

## Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1998 (Unaudited)

\$8,214,759.39 (69.7%) Administration

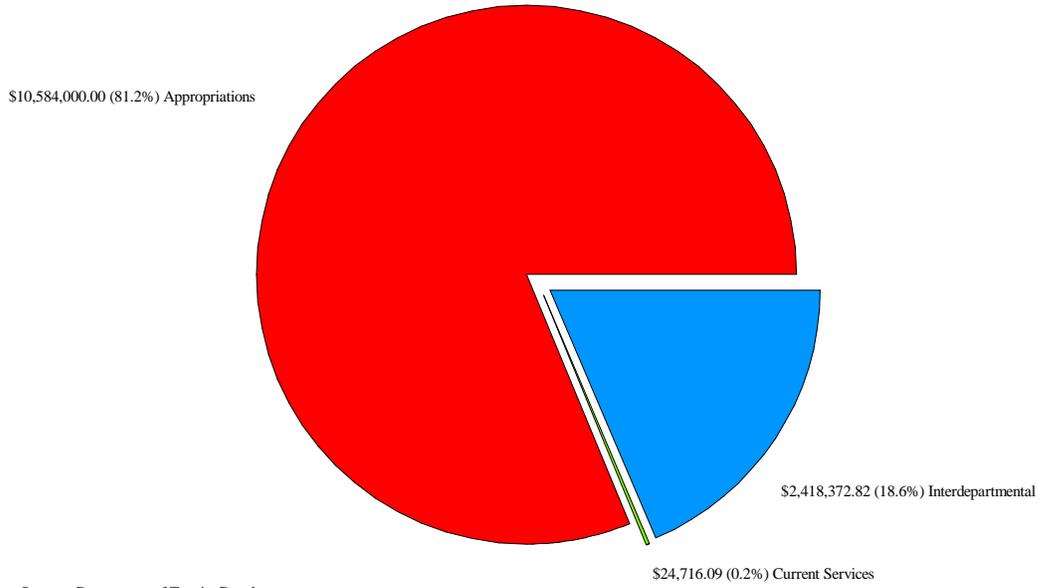


\$3,581,299.84 (30.3%) Welcome Centers Program

Source: Department of Tourist Development

## Department of Tourist Development Funding Sources

Fiscal Year Ended June 30, 1997 (Unaudited)



## Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1997 (Unaudited)

