

Military Department of Tennessee

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

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November 24, 1999

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

Major General Jackie D. Wood, Adjutant General

Military Department of Tennessee

3041 Sidco Drive

Nashville, Tennessee 37204

Ladies and Gentlemen:

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

We conducted our audit in accordance with generally accepted government auditing 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 Military Department of Tennessee's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Military Department of Tennessee is responsible for establishing and maintaining the internal control structure 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 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 controls and/or instances of noncompliance to the Military Department of Tennessee's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/069

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Military Department of Tennessee
For the Years Ended June 30, 1998, and June 30, 1997

AUDIT SCOPE

We have audited the Military Department of Tennessee 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 internal controls, expenditures, the Station Commanders' Upkeep and Maintenance Funds, the Active State Duty Payroll, the TOPS grant agreements, equipment, and utilization of the STARS grant module. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Inadequate Segregation of Duties**

Persons who were no longer working at the department still had access to the State of Tennessee Accounting and Reporting System. Duties involving access to the Tennessee On-Line Purchasing System and the Property of the State of Tennessee System were not adequately segregated (page 4).

Noncompliance With the Financial Integrity Act*

For the first year of the audit period, the department did not submit its annual internal control evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury (page 5).

Weak Controls Over the Station Commanders' Upkeep and Maintenance Funds**

The department's revision of the regulations governing these funds relaxed some of the requirements for managing the funds and had the unintended effect of weakening management controls even further. Also, visits to selected armories and reviews of selected quarterly reports disclosed inadequate segregation of duties and noncompliance with applicable regulations (page 8).

Active State Duty Payroll Documentation Not Maintained**

The files used to calculate the active state duty payroll are not always complete (page 11).

Approval Process Circumvented for Obtaining Staffing Services

The department used grant agreements with Tennessee Opportunity Programs, Inc., to obtain staffing services, instead of using the statewide contract or entering into personal services contracts (page 13).

Equipment Records Not Properly Maintained

Several pieces of equipment could not be found. Others were found at a location different from the one shown on the department's records. Also, state tags were not on all equipment (page 14).

The Department Did Not Fully Utilize the STARS Grant Module**

The department has not fully implemented the procedures established by Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues" (page 16).

- * 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
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Audit Report
Military Department of Tennessee
For the Years Ended June 30, 1998, and June 30, 1997

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Military Department of Tennessee

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

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Military Department of Tennessee. 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 Adjutant General is responsible for the administration of the Military Department of Tennessee. The department’s three major divisions are outlined below.

Administrative Services

Management Services provides the following state-financed services: preparation and execution of the budget; fiscal and accounting services; management and training of personnel; and procurement, inventory control, and issue of supplies, material, and equipment. The Bureau of War Records compiles and preserves records of Tennessee war veterans.

The department’s Public Affairs Office deals with the news media. Included in the department are the federally oriented sections—United States Property and Fiscal Office, Inspector General, and Support Personnel Military Office—and their federal employees.

Military Defense

Included in this division are the Tennessee Army National Guard and the Tennessee Air National Guard, which are under the direction of an Assistant Adjutant General. The Assistant Adjutant General for the Tennessee Army National Guard is also responsible for the Tennessee Defense Force and management of the various Station Commanders’ Upkeep and Maintenance Funds throughout the state. The state, under the provisions of the National Defense Act, is required to furnish armory, office, and storage facilities for the care and safekeeping of materials

and equipment furnished by the federal government, and to provide the maintenance and operating costs of these facilities; the Tennessee Army National Guard performs that duty. The Tennessee Air National Guard is responsible for the operation and maintenance of Air National Guard facilities in Nashville, Memphis, Chattanooga, and Alcoa. The Tennessee Defense Force is a voluntary organization that would provide personnel for the armory locations throughout the state in the event the National Guard were placed on active duty.

Emergency Management

The Tennessee Emergency Management Agency is under the administration of the Military Department of Tennessee. The division administers a statewide system of civil preparedness and coordinates the efforts of state departments and local civil defense organizations in emergency and disaster assistance and planning.

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

AUDIT SCOPE

We have audited the Military Department of Tennessee 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 internal controls, expenditures, the Station Commanders' Upkeep and Maintenance Funds, the active state duty payroll, the TOPS grant agreement, equipment, and utilization of the STARS grant module. The audit was conducted in accordance with generally accepted government auditing standards.

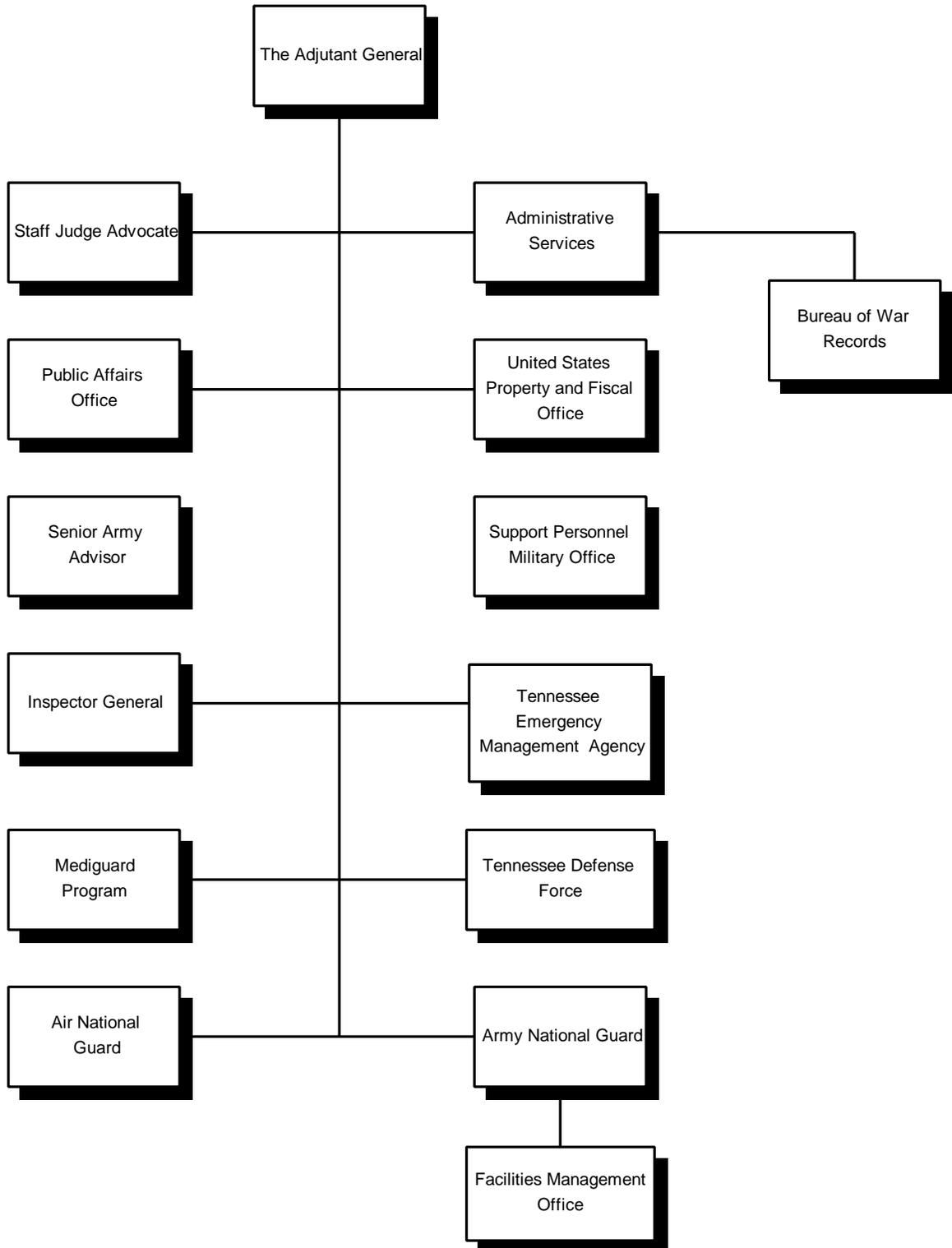
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

INTERNAL CONTROLS

Our objectives in reviewing internal controls and procedures focused on determining whether

- the department properly restricts access to the State of Tennessee Accounting and Reporting System, the Tennessee On-Line Purchasing System, the State Employee Information System, and the Property of the State of Tennessee system;
- the department segregates the cash-receipting duties;

MILITARY DEPARTMENT OF TENNESSEE ORGANIZATION CHART



- the department adequately segregates the inventory functions; and
- the department submitted its annual internal control evaluation to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury.

We interviewed key department personnel to gain an understanding of the department's procedures and controls related to the above areas. We also reviewed supporting documentation.

While interviewing personnel and reviewing documentation, we found that the controls were either not effectively designed or were not in place. This is discussed further in finding 1.

In addition, we discovered that the department had not submitted its annual internal control evaluation which was due December 31, 1997. This is discussed further in finding 2.

1. The department does not adequately segregate duties

Finding

As noted in the prior three audits, the department does not adequately segregate duties in the following areas:

- Three employees can enter purchase orders and requisitions, approve them, and enter the receipt of the goods or services on the Tennessee On-Line Purchasing System (TOPS). One of these employees is the procurement officer. This situation provides the employees with the opportunity to make purchases that are not properly authorized.
- As of August 6, 1998, nine former employees of the department still had access to the State of Tennessee Accounting and Reporting System (STARS). Three of those nine had transaction update authority, while one had transaction and table update authority. The others had inquiry access only. The length of time since they stopped working at the department ranged from one month to approximately two years. With this access, these persons could access state computer applications and perhaps make unauthorized changes to the data files.
- The procurement officer has the capability to add equipment, change its location, or transfer it among allotment codes on the Property of the State of Tennessee (POST) system. This access creates an inadequate segregation of duties by allowing the person to make changes without proper review and approval.

Inadequate management controls permit individuals to circumvent the normal review and approval process. The failure to segregate duties significantly increases the potential for errors and fraud to occur and go undetected. In response to the previous finding, management stated that it had taken steps to segregate duties. Access privileges to STARS and TOPS were being

reviewed. Plans were being developed for an ongoing review by management. Some progress has been made; however, improvement is still needed.

Recommendation

The Director of Administrative Services should take measures for appropriately and adequately segregating the duties of authorizing transactions, recording transactions, and maintaining assets. The director should also establish procedures to ensure access to computer applications is canceled promptly after an employee is terminated or transferred to another job or department.

Management's Comment

We concur. Management has taken additional steps to segregate duties. The employees who can enter purchase orders and approve them has been reduced to two. Due to a small staff, additional segregation is not practical. Access to STARS has been reviewed, and several people have been eliminated. We have procedures in place to delete personnel from STARS when they leave the department.

Currently, only the property officer and his supervisor may add equipment, change location, or transfer the equipment in POST.

2. The department failed to comply with the Financial Integrity Act

Finding

As noted in a prior audit finding, the Military Department failed to submit an evaluation of its internal accounting and administrative controls by the December 31 deadline. According to the Financial Integrity Act of 1983, a report should have been filed by December 31, 1997, but was not.

Management concurred with the prior audit finding and stated in its response that a policy would be established requiring each director to complete an annual evaluation. However, no report was submitted.

Prior to March 25, 1998, *Tennessee Code Annotated (TCA)*, Section 9-18-104, stated, "By December 31 of each year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under the preceding section, prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report ..." This law was still in effect for the December 1997 report.

The Financial Integrity Act was modified on March 25, 1998. The amended law changes the department's future reporting responsibilities. *TCA*, Section 9-18-104 (a), now states,

By June 30, 1999, and each year thereafter, the head of each executive agency ... shall submit to the commissioner of finance and administration and the comptroller of the treasury a letter acknowledging responsibility for maintaining the internal control system of the agency.

TCA, Section 9-18-104 (b)(1), further states, "By December 31, 1999, and December 31 of every fourth year thereafter, the head of each executive agency shall ... prepare and submit a report ..." This report on the department's internal control system must be prepared in accordance with guidelines established by the Commissioner of Finance and Administration, in consultation with the Comptroller of the Treasury.

Recommendation

The department should comply with the provisions of the Financial Integrity Act. On June 30 of each year, the adjutant general should submit a letter to the Commissioner of Finance and Administration and the Comptroller of the Treasury acknowledging responsibility for maintaining the Military Department's internal control system. By December 31, 1999, and every fourth year thereafter, the adjutant general should prepare and submit an evaluation of the department's internal accounting and administrative controls. This evaluation should be in compliance with the guidelines established by the Commissioner of Finance and Administration and the Comptroller of the Treasury.

Management's Comment

We concur. The department is currently complying with the Financial Integrity Act as amended on March 25, 1998.

EXPENDITURES

Our review focused on determining whether

- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting system;
- payments to vendors were made promptly;
- department records were reconciled with reports from the state's accounting system;

- expenditures were in compliance with applicable state regulations;
- all payments for travel have been paid in accordance with the Comprehensive Travel Regulations; and
- contract payments complied with contract terms and purchasing guidelines and were properly approved and recorded against the contract.

We interviewed key personnel to gain an understanding of management controls. We then selected a sample of expenditures charged to examine for proper support and compliance with the applicable regulations. We had no findings related to expenditures.

STATION COMMANDERS' UPKEEP AND MAINTENANCE FUNDS

Money received for National Guard armory rentals is deposited into the Station Commanders' funds and used for upkeep and maintenance of armories. The objectives of our review were to determine whether

- the duties involved in the processing of receipts and the payment of expenditures were properly segregated;
- appropriate accounting records were properly maintained;
- quarterly reports were submitted timely with the required information;
- receipts were prepared for all money received and the money was deposited promptly;
- expenditures for goods and services were authorized and allowable;
- contracts were executed for all rentals of the armories; and
- all payments for armory rentals were made in advance.

We interviewed key personnel to gain an understanding of management controls used by the Construction and Facilities Management Officer, the person in charge of all station commanders' funds. We selected a sample of armories to visit and a sample of armories for which we only reviewed a quarterly report. For those armories that were visited, we interviewed key personnel to gain an understanding of the armories' procedures. We also reviewed supporting documentation for one quarterly report. For the armories that received a desk review, we reviewed all documentation that was included with one quarterly report. As a result of the interviews and testwork, we discovered that some armories did not adequately segregate the receipting and disbursement duties. Additionally, we found that applicable regulations were not always followed. This is discussed further in finding 3.

3. Revisions of regulations weakened controls over the Station Commanders' Upkeep and Maintenance Funds

Finding

As stated in 11 previous audits, the Military Department needs to improve controls over the Station Commanders' Upkeep and Maintenance Funds. Management concurred with the previous audit finding and stated that new procedures for these funds had been established in the *Rules and Regulations of the State of Tennessee*, Chapter 0930-1-1, and would become effective on September 28, 1997. Based on the above-mentioned addition to the *Rules and Regulations of the State of Tennessee*, the department revised the *Tennessee Army National Guard Regulation (TARNGR) 37-5* that governs the Station Commanders' Upkeep and Maintenance Funds. However, this revision relaxed some of the requirements for managing the funds and had the unintended effect of weakening management controls even further. Specifically, the following changes were made:

- a. The requirement that quarterly reports be submitted before the last day of the month following the end of each quarter was eliminated. Without a specified submission date, it becomes more likely that follow-up by the Construction and Facilities Management Officer (CFMO) on errors or omissions in the reports will not be timely.
- b. The revised regulation no longer requires that copies of bank statements, income summaries, and expenditure summaries be sent in with the quarterly reports. Without this additional documentation, the CFMO cannot determine if the information on the reports is accurate.
- c. The revised regulation does not include procedures for purchasing equipment, nor does it provide adequate guidelines for developing rental fee schedules, a definition of allowable improvements, and examples of unallowable expenditures. The Station Commanders need this additional guidance in order to more effectively manage their funds.

During the audit, armories in Nashville, Gallatin, Lewisburg, and Johnson City were visited, and selected quarterly reports for the Crossville, McMinnville, Newport, and Tullahoma armories were reviewed. Testwork revealed the following discrepancies:

- a. The CFMO did not document the date he received the quarterly reports for Nashville, Gallatin, Johnson City, Lewisburg, and Newport. Therefore, the auditors could not determine if the reports were submitted timely.
- b. The CFMO did not maintain a log of quarterly reports received; so he would not know if an armory had not submitted a report. There was also no evidence that the CFMO or his staff had reviewed any of the reports during the audit period.

- c. Johnson City's quarterly report was signed by the Station Commander but not by the fund custodian. The reports from Crossville and Tullahoma were signed by the fund custodian but not by the Station Commander. Two persons should review and sign the report in order to ensure its accuracy.
- d. The Station Commander at Nashville did not deposit receipts immediately as required by the Department of Finance and Administration's Policy 25, "Deposit Practices." Twenty-six of 45 receipts tested (57.8%) were deposited from one to six days late.
- e. The Station Commanders at Nashville, Johnson City, Lewisburg, McMinnville, Newport, and Tullahoma did not always receive fees in advance for armory rentals as required by TARNGR 37-5, paragraph 8A(2)(c). Fees were received on the day of the rental and up to eight days after the rental.
- f. The Station Commander at Gallatin and Nashville did not adequately segregate cash-handling duties as required by TARNGR 37-5, paragraph 13. The Station Commander at Gallatin prepared receipts, endorsed the checks, prepared the deposits, made the deposits, recorded the deposits, approved disbursements, signed the checks, reconciled the bank statements, and recorded the disbursements in the accounting records. At Nashville, three persons are authorized to approve disbursements and sign checks. These combinations of duties provide persons with the opportunity to conceal errors or fraud or to perform a financial transaction without proper approval.
- g. The Station Commander at Nashville did not prepare the quarterly report properly.
 - 1) A receipt received and reported in the prior quarter was also reported as income in the quarter tested.
 - 2) A disbursement made and reported in the prior quarter was also reported in the quarter tested.
 - 3) Receipts received in the quarter tested were not reported until the following quarter.
 - 4) Disbursements made in the quarter tested were reported in that quarter and also in the following quarter.

As a result of these errors, the book balance of the Nashville account at March 31, 1997, on the quarterly report was \$183.18 less than the actual balance.

- h. The ending cash balance shown on the March 31, 1997, quarterly report from Johnson City was \$17,130.83; the actual balance was \$15,669.28. The difference could not be explained.
- i. The Station Commander at Gallatin did not reconcile the bank statement each month during the quarter tested as required by TARNGR 37-5, paragraph 7H.

- j. The armories at Lewisburg, Gallatin, and Johnson City did not have an approved list of rental fees as required by TARNGR 37-5, paragraph 8A(2).

Recommendation

The Assistant Adjutant General of the Army National Guard should initiate an evaluation of current regulations and revise those parts that weaken management controls. The Assistant Adjutant General should establish procedures at the division level to ensure quarterly reports comply with TARNGR 37-5. He should then begin an evaluation of each armory's controls, make any necessary changes, and monitor the armories for compliance. The department's internal review section should routinely review these funds to ensure adequate controls are in place and operating effectively.

Management's Comment

We concur with this finding. The Assistant Adjutant General of the Army National Guard has implemented a revision and replacement of TARNGR 37-5 by State of Tennessee Rule No. 0913-1-1. Further evaluation of this rule is being conducted to respond to the parts that have been considered a weakening of management controls. Rule No. 0913-1-1 does address quarterly reports. Through the Command Evaluation Program (CEP) which was established during FY 98-99, the Station Commanders' Upkeep and Maintenance Fund is an inspected item of this evaluation. A representative of the Construction and Facilities Management Officer (CFMO) conducts this inspection for compliance with Rule No. 0913-1-1. The CEP will inspect approximately one-third of the 80 plus funds each year; therefore, within a three-year cycle all funds will be inspected. In addition to the above review, the department's internal review section will review at least ten of these funds per fiscal year to ensure adequate controls are in place and are operating effectively.

ACTIVE STATE DUTY PAYROLL

Our objectives in reviewing the active state duty payroll focused on determining whether

- there was a signed order on file covering the pay period;
- there was a properly completed time sheet on file;
- the monthly salary agreed with the approved rate for the individual's rank and years of service;
- all allowances agreed with the approved pay schedule;

- the federal income tax and FICA withheld were calculated correctly;
- the net pay was calculated correctly; and
- the pay grade and years of experience agreed with the request for special orders.

We interviewed key personnel to gain an understanding of management controls. We then selected a sample of payments made during the audit period to determine if the above objectives had been met. We found a significant number of instances in which they were not. The details of this are discussed further in finding 4.

4. Documentation supporting the active state duty payroll is not adequately maintained

Finding

As noted in the prior two audits, the Military Department's files used to calculate the active state duty payroll are not always complete. A review of payroll expenditures revealed the following discrepancies:

- a. Seventeen of 25 payments tested (68.0%) were not supported by a properly completed time sheet. The payments were supported only with a memorandum from the Station Commander; none of the memoranda or other related documents were signed by the individuals who served the active state duty.
- b. For 2 of 40 payments tested (5.0%), the support for income tax withholdings (IRS Form W-4) could not be located.
- c. For 12 of 38 applicable payments tested (31.6%), the filing status shown on the orders did not agree with the status shown on the Active Duty Pay Summary and the W-4 on file. The incorrect amount of withholding was deducted for eight of these 12 payments. The correct amount could not be determined for one of the 12 because the W-4 was not completed properly.

Failure to maintain accurate and complete payroll information increases the probability that an error or fraud could occur and go undetected. Management concurred with the prior finding and stated that it was reducing the amount of active state duty and was requiring that the fiscal director establish proper procedures for active state duty payments. Improvement has been made; however, adequate documentation is still not being maintained.

Recommendation

The Director of Administrative Services should establish procedures to ensure that the fiscal director and staff maintain a complete file for each person on active state duty. The fiscal

director should ensure that the person who prepares the active state duty payroll does not process payments until all supporting documentation has been received.

Management's Comment

We concur and we have implemented the recommendation. A procedure has been established which requires each active state duty participant to complete a time sheet, which is certified by their supervisor and is submitted for each payroll period.

For each calendar year the active state duty personnel are required to submit a new W-4 form before their first payroll is processed. This requirement will eliminate erroneous deductions for taxes.

TENNESSEE OPPORTUNITY PROGRAMS, INC., GRANT AGREEMENT

Since July 1, 1996, the department has used grant agreements with Tennessee Opportunity Programs (TOPS), Inc., to obtain temporary workers for Administrative Services, the Army National Guard, and the Tennessee Emergency Management Agency. Under these agreements, the department incurred expenditures of \$1,877,685.20. Because of the unusual nature of the agreements, namely, that they were grants instead of personal services contracts, we decided to examine the agreements to determine whether

- payments made to TOPS were only for expenditures which had already been incurred;
- the substance of the agreements properly qualifies them to be considered grant agreements;
- payments made to TOPS were allowable and supported by the required documentation;
- the content of the agreements, if the nature of the agreements qualified them as grants, complied with the format issued by the Contract Services section of the Department of Finance and Administration; and
- the department was in compliance with any federal regulations pertaining to subgrantees, if the nature of the agreements qualified them as grants.

In addition to our examination of the agreements, we also interviewed key personnel to gain an understanding of management controls. We then selected a sample of expenditures made during the audit period to determine if the above objectives had been met. We found a significant number of instances in which they were not, as detailed in finding 5.

5. The department circumvented the approval process by using grant agreements to obtain staffing services

Finding

The Military Department used grant agreements with Tennessee Opportunity Programs (TOPS), Inc., to obtain staffing services, instead of using the statewide contract or entering into personal services contracts. Grant agreements are intended only for the administration of grants. Had the department appropriately negotiated personal services contracts, these contracts would have required the approval of the Department of Personnel and the Comptroller of the Treasury. Furthermore, during this time, the Department of Personnel had a statewide contract with Olsten Staffing Services to provide statewide temporary staffing services. By entering into these agreements with TOPS, the department in effect circumvented the normal approval process.

Even had the use of a grant agreement been permissible, problems were noted with the content of the agreements.

- None of the agreements included the Catalog of Federal Domestic Assistance numbers of the federal programs which would flow through to TOPS.
- Three of the four agreements did not include attachments that were mentioned in the agreements and were an essential part of the agreements.
- The approval signatures on three of the four agreements either were not dated or were dated after the effective starting date.

In addition, the department did not maintain adequate documentation for 23 of 25 invoices tested (92.0%). In some cases, the only documentation was the invoice from TOPS for reimbursement. In others, there were summaries attached to the invoices, but the information on the summaries could not be traced back to records which substantiated the rate of pay used, time sheets, travel claims and motel receipts, indirect costs, and supplies. Department personnel stated that TOPS kept the supporting documentation in its office. By not maintaining a copy of supporting documentation for invoices for reimbursement, the department would have difficulty resolving issues concerning disputed or questioned invoices.

Recommendation

The Adjutant General should ensure that the department follows all applicable laws and policies. He should instruct his staff to contact the Department of Personnel when temporary help is needed. The department should not attempt to circumvent the process by writing grant agreements. The Director of Administrative Services should ensure that the department maintains adequate supporting documentation for invoices. If the department should find it necessary to enter into grant agreements, the Adjutant General should instruct his staff to follow all state procedures and federal regulations.

Management's Comment

We concur. We did not intend to circumvent the approval process by using the grant agreement. We agreed with the auditor that the grant agreement with TOPS should not be used in the future. The department did not renew the agreements with TOPS after July 1, 1999.

EQUIPMENT

The objectives of our work in the area of equipment were to determine whether

- the information on the Property of the State of Tennessee (POST) system is accurate;
- the equipment is adequately safeguarded; and
- the information on the equipment being leased from the Office for Information Resources (OIR) is accurate.

To accomplish this, we interviewed key personnel to gain an understanding of management controls. We then selected a sample of equipment from POST to determine if the above objectives had been met. We also obtained a current billing record of equipment being leased from OIR and tested it to determine if the information available on this equipment was accurate. We found a significant number of instances in which it was not. This is discussed further in finding 6.

6. Adequate records are not kept on equipment

Finding

The Military Department does not keep adequate records on the equipment that it uses. Both Office for Information Resources (OIR) and department equipment were tested. The testwork on OIR equipment maintained by the department disclosed the following discrepancies:

- a. Fifteen of the 23 pieces of equipment tested (65.2%) were not at the location indicated on the inventory listing. Seven were in a different building from the one shown on the inventory listing. Five items could not be found. Two items were in a different city from the location shown on the inventory listing. One item had been returned to OIR.
- b. Ten of the 23 items tested (43.5%) did not have state tags. Eight untagged pieces were modems; the other two were adapters.

The testwork on the department's own equipment disclosed the following:

- a. Fourteen of the 25 pieces of equipment tested (56%) were not at the location indicated in POST. Seven of the 14 were shown as being located in Davidson County, although they were actually in other counties across the state. Five could not be found, including four chainsaws assigned to TEMA and a visual aircraft beacon assigned to the Armories Maintenance Division. Two had obsolete location codes.
- b. Two of the 20 pieces of equipment that were found (10.0%) did not have a state tag on them. They were identified because the serial number on the equipment matched the one in POST.

Not maintaining a current, accurate inventory listing for OIR equipment can result in the department being billed for equipment no longer in its possession. Equipment is more easily lost or stolen if accurate location records are not kept.

Recommendation

The Director of Administrative Services needs to establish procedures to ensure that equipment records are updated when equipment is moved and that all appropriate items receive a state tag. The director should monitor these procedures to ensure that they are implemented. When equipment is returned to OIR, the department needs to keep documentation of the transfer. The OIR billing needs to be reviewed monthly to ensure that the equipment listed on the billing agrees with the department's inventory records.

Management's Comment

We concur. Property is assigned to the various property officers in the Military Department. The property officers use hand receipts to temporarily assign the equipment to the person using the equipment.

We have initiated a program where a person in our Internal Review Section will perform spot inventories of equipment. The OIR billing is currently being reviewed each quarter to insure that the equipment listing agrees with the billing.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

The 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 objectives focused on determining whether

- appropriate grant information was entered into the STARS grant control table upon notification of the grant award;
- the department made drawdowns at least weekly using the applicable STARS reports;
- an indirect cost recovery plan was negotiated and indirect costs were included in the drawdowns; and
- the department used 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 reviewed supporting documentation and tested all grant awards and all drawdowns for the Emergency Management–State and Local Assistance program. We also reviewed the Schedule of Expenditures of Federal Awards. We determined that the department has not fully implemented the procedures established by Policy 20. These problems are discussed in finding 7.

7. The department did not fully utilize the STARS grant module

Finding

As noted in the prior three audits, the Military Department of Tennessee did not comply with the Department of Finance and Administration's policy "Recording of Federal Grant Expenditures and Revenues." The Department of Finance and Administration issued Policy 20 in response to the Cash Management Improvement Act of 1990. The policy is designed to establish uniform procedures to "track the exchange of funds between the State and Federal government." Management concurred with the prior finding and indicated it would either utilize STARS Report 832 or ask for an exception from state procedures. Neither of these was done. Improvements have been made in other areas, but the department has still not fully implemented the procedures established by the policy. The following weaknesses were noted:

- a. Of the 185 grants shown on the STARS Grant Status Report (Report 829), 77 (41.6%) did not indicate the amount of the grant award. According to Section 20-02-202, "All grant awards must be recorded at the time that a grant award notification is received from the Federal government."
- b. Federal drawdowns were not made utilizing the STARS grant module (Report 832).
- c. For the Emergency Management–State and Local Assistance program, the department made only 30 drawdowns of funds during the period July 1, 1997, through June 30, 1998. Fifteen of these were not made within five business days of the previous

drawdown. According to Section 20-02-204, "All drawdowns must be performed at least weekly."

- d. The STARS Grant Activity Report (Report 830) was used as the basis for preparing the Schedule of Expenditures of Federal Awards for all grants, but 4 of 27 grants tested (14.8%) had a grant number shown on the STARS 830 report that was erroneous.

Recommendation

The fiscal director should instruct his staff to begin utilizing the STARS 832 report to calculate federal drawdowns and to enter the grant awards into STARS when the award is received. He should establish procedures to ensure drawdowns are made at least weekly. He should then regularly monitor staff performance to ensure the procedures are followed.

Management's Comment

We concur. We have made progress in recording the amount of the grant awards. We will place additional emphasis on recording of federal grants.

One of our programs, Disaster Assistance, currently a 34 million-dollar federal program, is being drawn down daily. The indirect costs related to the Disaster Assistance Programs are also being drawn down daily. We are starting a program to draw down the other federal programs twice per month. Payroll will be drawn down twice per month and the other expenditures will be drawn once per month. We are working with the Department of Finance and Administration in an effort to receive approval for drawing down each program twice per month with the exception of Disaster Assistance. We will also balance our draws with the STARS 832 report.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Military Department of Tennessee filed its report with the Department of Audit on January 29, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The findings related to the misappropriation of equipment and the improper purchases have been resolved.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate segregation of duties, noncompliance with the Financial Integrity Act, the inadequate active state duty payroll system, weak controls over the Station Commanders' Upkeep and Maintenance Funds, and noncompliance with Policy 20. These findings have not been resolved and are repeated in the applicable sections of this report.

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. The Military Department filed its compliance reports and implementation plans on June 30, 1997, and July 1, 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.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

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.

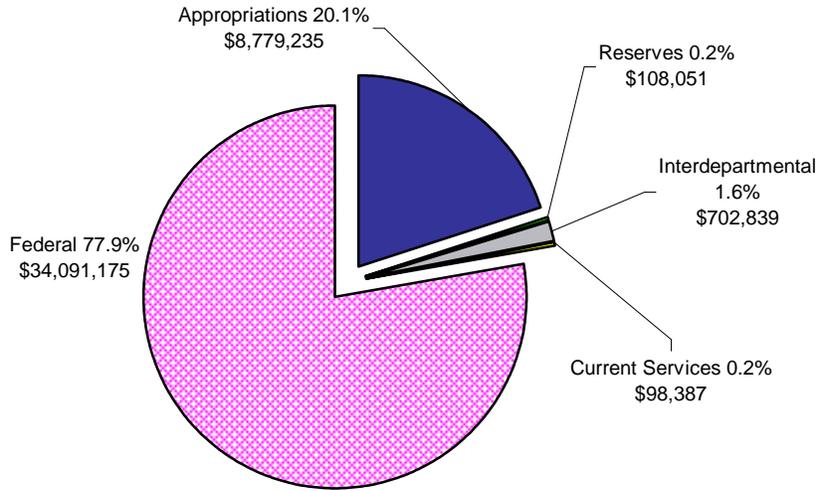
APPENDIX

DIVISIONS AND ALLOTMENT CODES

Military Department divisions and allotment codes:

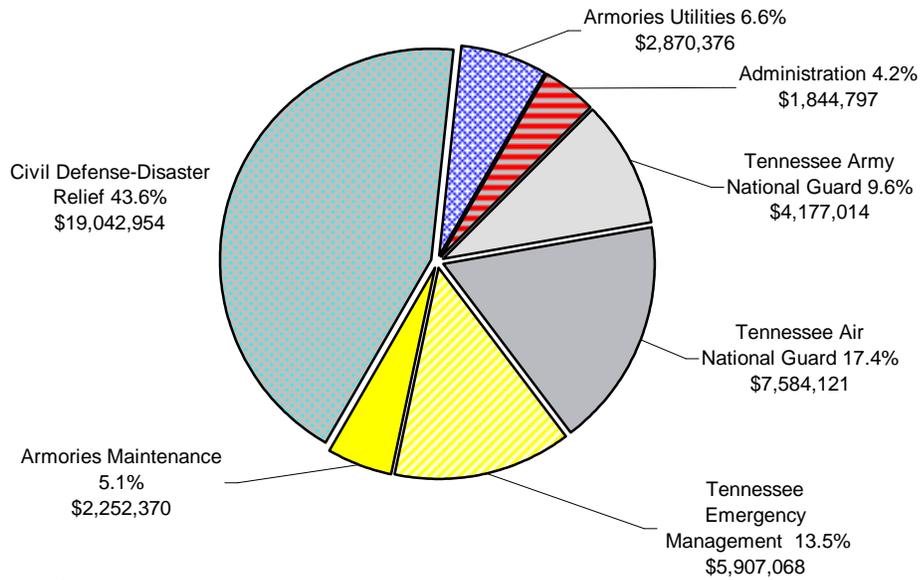
341.01	Division of Administration
341.02	Division of Tennessee Army National Guard
341.03	Division of Tennessee Air National Guard
341.04	Tennessee Emergency Management Agency
341.07	Armories Maintenance
341.09	Civil Defense - Disaster Relief
341.10	Armories Utilities

Funding Sources Year Ended June 30, 1998 (Unaudited)



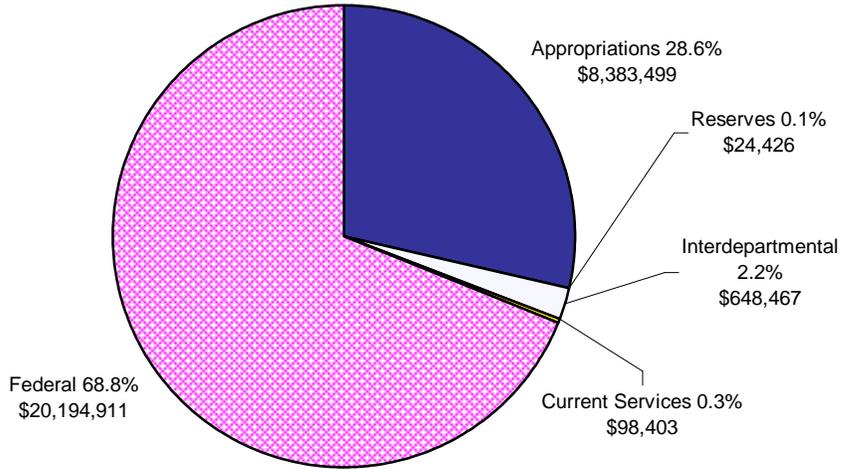
Source: Military Department

Expenditures by Allotment Year Ended June 30, 1998 (Unaudited)



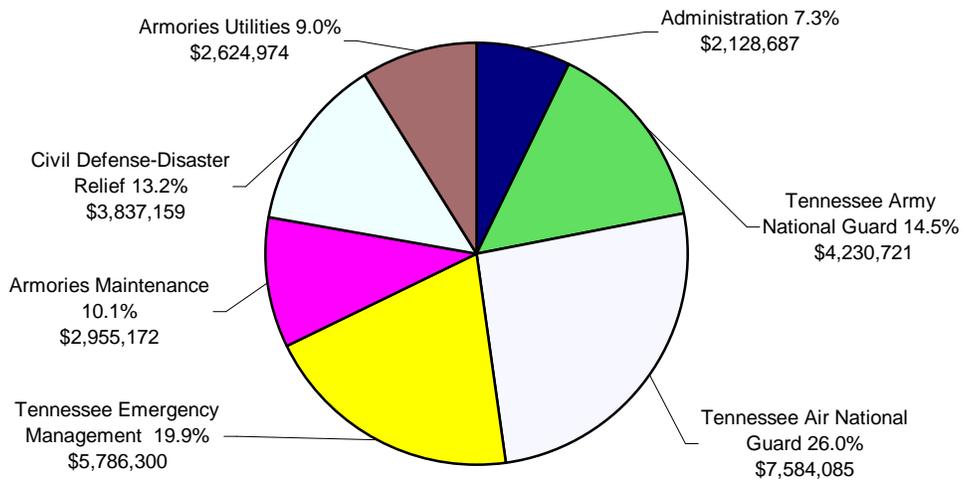
Source: Military Department

Funding Sources Year Ended June 30, 1997 (Unaudited)



Source: Military Department

Expenditures by Allotment Year Ended June 30, 1997 (Unaudited)



Source: Military Department