

AUDIT REPORT

Office of the Comptroller of the Treasury

October 2009



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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October 13, 2009

The Honorable Ron Ramsey
Speaker of the Senate
and
The Honorable Kent Williams
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Office of the Comptroller of the Treasury for the period July 1, 2008, through June 30, 2009.

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the office's internal control to the office's management in a separate letter.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb
09/100

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Performance Audit
Office of the Comptroller of the Treasury
October 2009

AUDIT SCOPE

We have audited the Office of the Comptroller of the Treasury for the period July 1, 2008, through June 30, 2009. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of personnel, Edison, and revenues/expenditures.

The auditors are not considered independent of the audited entity because they are employees of the Office of the Comptroller of the Treasury.

AUDIT FINDINGS

The audit report contains no findings.

**Performance Audit
Office of the Comptroller of the Treasury**

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Performance Audit Office of the Comptroller of the Treasury

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the audit of the Office of the Comptroller of the Treasury. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires 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 Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. The functions and duties of the office are assigned through various legislative enactments.

The Office of the Comptroller of the Treasury is organized into several divisions to discharge its statutory duties. The basic functions of each division are described below.

The Division of Administration provides direction, coordination, and supervision to the various divisions within the Comptroller’s Office and represents the Comptroller on various boards and commissions. The Office of Open Records serves as the contact for concerns on access to local government public records.

The Office of Management Services provides administrative and support services to the divisions of the Comptroller’s Office in the areas of accounting, budgeting, payroll and personnel, information systems, and printing. The office assists the Comptroller in policy and contract matters and provides staff support for several boards and commissions.

The Division of State Audit conducts financial and compliance and performance audits, conducts investigations, and performs special studies to provide the General Assembly, the Governor, and citizens of Tennessee with information about the state’s financial condition and the performance of the state’s many agencies and programs. The TennCare section of the

Division of State Audit, under an agreement with the Department of Finance and Administration, performs certain audit and rate-setting functions for the state's TennCare program.

The Division of County Audit is responsible for annual audits of all 95 counties in the state. The division establishes standards for county audits conducted by public accounting firms. The division assists local governments with financial administration questions.

The Division of Municipal Audit ensures that municipalities, designated school system funds, utility districts, and government-funded nonprofit agencies are audited as required by state statute. The division investigates and issues reports on allegations of misconduct, fraud, or waste in local government, often referring findings to other agencies for appropriate action.

The Division of Bond Finance manages the state debt, including issuance of all bonds and notes and payment of such debt. This division serves as staff for the State Funding Board, State School Bond Authority, Tennessee Local Development Authority, and Bond Finance Committee of the Tennessee Housing Development Agency.

The Offices of Research and Education Accountability prepare reports at the request of the Comptroller and the General Assembly on various state and local government issues. The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly with reports on selected education topics.

The Division of Local Finance approves certain debt obligations of local governments, approves budgets of local governments which have certain debt obligations outstanding, and assists local governments with other debt and financial management issues.

The Office of State Assessed Properties annually appraises and assesses all public utility and transportation properties and telecommunications ad valorem tax equity payments as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

The Office of Local Government provides technical assistance to local governments in redistricting efforts and in establishing precincts, maintains county precinct information, and provides mapping services.

The State Board of Equalization is responsible for assuring constitutional and statutory compliance in assessments of property for ad valorem taxes. The board establishes rules and hears appeals for property values, property exemption, and public utility assessments.

The Division of Property Assessments assists local governments in assessment of property for tax purposes and administers the property tax relief program, which provides reimbursements to low-income elderly or disabled persons and certain disabled veterans or their surviving spouses.

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

AUDIT SCOPE

We have audited the Office of the Comptroller of the Treasury for the period July 1, 2008, through June 30, 2009. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of personnel, Edison, and revenues/expenditures.

The auditors are not considered independent of the audited entity because they are employees of the Office of the Comptroller of the Treasury.

PRIOR AUDIT FINDINGS

There were no audit findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

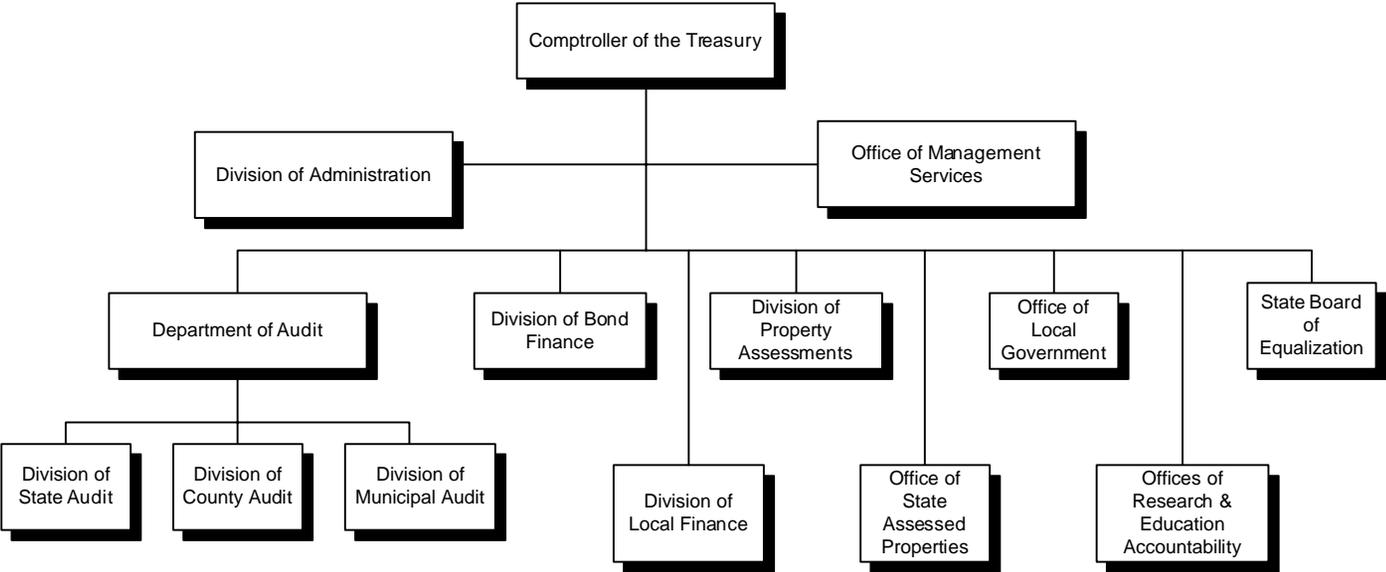
PERSONNEL

Our objectives in reviewing personnel procedures were to determine whether

- hiring procedures such as obtaining a state application, transcript, and list of references were followed for new key employees and new employees directly supervised by the new Comptroller; and
- access to any systems was properly removed for the former Comptroller and any other key terminated employees.

To determine if hiring procedures were followed for new key employees and new employees directly supervised by the new Comptroller, we reviewed the personnel file of the new employee directly supervised by the new Comptroller to ensure that a state application, transcript, and list of references was obtained. To determine if access to any systems was properly removed for the former Comptroller and other key terminated employees, we obtained a listing of employees that were dismissed or placed on administrative leave. We reviewed personnel files

Comptroller of the Treasury Organization Chart



for those employees and obtained information from appropriate personnel as to when the employees' access was removed.

As a result of our review of personnel procedures, we determined that

- hiring procedures such as obtaining a state application, transcript, and list of references were followed for new key employees and new employees directly supervised by the new Comptroller; and
- access to any systems was properly removed for the former Comptroller and all other key terminated employees, with minor exceptions.

EDISON

Our objectives in reviewing Edison were to determine whether

- accounting and financial reports and/or queries were available to management to facilitate management's review of summarized information entered in the Edison system;
- access to the Edison system was granted based on an employee's job responsibilities; and
- access was set up to prevent a user from having incompatible duties.

To determine if accounting and financial reports and/or queries were available to management to facilitate management's review of summarized information entered in the Edison system, we interviewed key personnel, obtained a crosswalk listing of reports considered significant, and ran queries on the Edison system. To determine if access to the Edison system was granted based on an employee's job responsibilities and that access was set up to prevent a user from having incompatible duties, we interviewed key personnel and reviewed job responsibilities and access to Edison for key and financial employees in the Office of Management Services.

As a result of our review of Edison, we determined that

- accounting and financial reports and/or queries were available to management to facilitate management's review of summarized information entered in the Edison system;
- access to the Edison system was granted based on an employee's job responsibilities; and
- access was set up to prevent a user from having incompatible duties.

REVENUES/EXPENDITURES

Our objectives in reviewing revenues and expenditures were to determine whether

- the office experienced significant or unusual fluctuations in percentages of revenues received by division which required management explanations;
- management had procedures in place to detect and prevent duplicate travel claims;
- travel expenditures incurred by the Comptroller were necessary and reasonable;
- mileage claimed by employees of the Division of Property Assessments was necessary and reasonable;
- cell phone and blackberry expenditures incurred by key employees and the Comptroller were necessary and reasonable;
- expenditures related to the contract for the Integrated Multi Processing of Administrative and CAMA Technology (IMPACT) system were necessary and reasonable; and
- the office experienced significant or unusual fluctuations in salary expenditures which required management explanations.

To determine if the office experienced significant or unusual fluctuations in percentages of revenues by division which required management explanations, we obtained a summary of revenue recorded in the State of Tennessee Accounting and Reporting System (STARS) through May 31, 2009, and revenue recorded in Edison through March 31, 2009. We compared the percentages of revenue received to revenues received during the prior fiscal year by division. We interviewed key personnel to determine if management had procedures in place to detect and prevent duplicate travel claims. We reviewed travel claims and the related support for travel incurred by the Comptroller to determine if the travel expenditures were necessary and reasonable. To determine if mileage claimed by employees of the Division of Property Assessments was necessary and reasonable, we interviewed key personnel to obtain an understanding of the procedures for claiming mileage. We reviewed mileage claimed in Edison for the period January through June 2009 for the two employees in the division who had the largest amount of travel expenditures during that period. We reviewed billing reports for each month during the audit period to determine whether cell phone and blackberry expenditures incurred by key employees and the Comptroller were necessary and reasonable. We reviewed supporting documentation to determine if expenditures related to the contract for the IMPACT system were necessary and reasonable. To determine if the office experienced significant or unusual fluctuations in salary expenditures which required management explanations, we obtained a summary of all salary expenditures reported in Edison between January 2009 and March 2009. We performed analytical procedures to determine that the expenditures incurred by

each division for those three months were approximately 25% of total expenditures incurred during the prior fiscal year.

As a result of our review of revenues and expenditures, we determined that

- there were no significant or unusual fluctuations in percentages of revenues received requiring explanation by management;
- management had procedures in place to detect and prevent duplicate travel claims;
- travel expenditures incurred by the Comptroller were necessary and reasonable;
- expenditures for mileage claimed by two employees of the Division of Property Assessments were necessary and reasonable;
- cell phone and blackberry expenditures incurred by key employees and the Comptroller were necessary and reasonable;
- expenditures related to the contract for the IMPACT system were necessary and reasonable; and
- management provided reasonable explanations for significant fluctuations in salary expenditures.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. Management's responsibility is to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the

effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since entity staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

APPENDICES

ALLOTMENT CODES

Office of the Comptroller of the Treasury divisions and allotment codes:

- 307.01 Division of Administration
- 307.02 Office of Management Services
- 307.03 Capitol Print Shop
- 307.04 Division of State Audit
- 307.05 Division of County Audit
- 307.06 Division of Municipal Audit
- 307.07 Division of Bond Finance
- 307.08 Office of Local Government
- 307.09 Division of Property Assessments
- 307.10 Tax Relief Program
- 307.11 State Board of Equalization
- 307.12 Division of Local Finance
- 307.14 Offices of Research and Education Accountability
- 307.15 Office of State Assessed Properties
- 307.50 Ad Valorem Tax Payments

BOARDS AND COMMISSIONS

The Comptroller of the Treasury is a member of the following:

- Access Improvement Project Committee
- Board of Claims
- Board of Standards
- Contracts for State Service Review Committee
- Council on Pension and Insurance
- Emergency Communications Board
- Governor's Council on Health and Physical Fitness
- Health Services and Development Agency
- Information Systems Council
- Local Education Insurance Committee
- Local Government Insurance Committee
- Public Records Commission
- State Board of Equalization
- State Building Commission
- State Capitol Commission
- State Funding Board

State Government Quality Improvement Task Force
State Insurance Committee
State and Local Government Advisory Committee to Monitor Internet Use
State Trust of Tennessee Board of Directors
Tennessee Advisory Commission on Intergovernmental Relations
Tennessee Baccalaureate Education System Trust
Tennessee Child Care Facilities Corporation
Tennessee Consolidated Retirement System Board of Trustees
Tennessee Governmental Accountability Commission
Tennessee Higher Education Commission
Tennessee Housing Development Agency
Tennessee Industrial Development Authority
Tennessee Industrial Finance Corporation
Tennessee Local Development Authority
Tennessee State School Bond Authority
Tennessee Student Assistance Corporation
Tuition Guaranty Fund Board
Utility Management Review Board
Water and Wastewater Financing Board
Workers Compensation Insurance Fund Board Review Committee