

PERFORMANCE AUDIT

Office of the Comptroller of the Treasury

December 2010



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
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December 30, 2010

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, 2009, through June 30, 2010.

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 one other less significant matter involving instances of noncompliance to the office's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb
11/014

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
December 2010

AUDIT SCOPE

We have audited the Office of the Comptroller of the Treasury for the period July 1, 2009, through June 30, 2010. 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 Capitol Print Shop closure, revenues and expenditures, personnel, equipment, the Property Tax Relief Fund, and emergency preparedness procedures for data protection and recovery.

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. Described below are each division’s basic functions.

The Division of Administration provides direction, coordination, and supervision to the divisions within the Comptroller’s Office and represents the Comptroller on various boards and commissions.

The Office of Management Services provides administrative and support services to the divisions of the Comptroller’s Office in the areas of accounting, budgeting, 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 objective 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 Office of State and Local Finance manages the state debt, including issuance of all bonds and notes and payment of such debt. This office serves as staff for the State Funding Board, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Bond Finance Committee of the Tennessee Housing Development Agency. The office also 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 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.

The Office of State Assessed Properties annually appraises and assesses all public utility and transportation properties 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 using geographic information systems (GIS) technology.

The Offices of Research and Education Accountability prepares 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 Office of Open Records Counsel provides information and advice to citizens and local government officials regarding the Tennessee Public Records Act, collects data regarding Open Meetings Law inquiries and problems, and provides educational programs on Public Records and Open Meetings.

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 county and public utility assessment appeals.

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, 2009, through June 30, 2010. 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 Capitol Print Shop closure, revenues and expenditures, personnel, equipment, the Property Tax Relief Fund, and emergency preparedness procedures for data protection and recovery.

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.

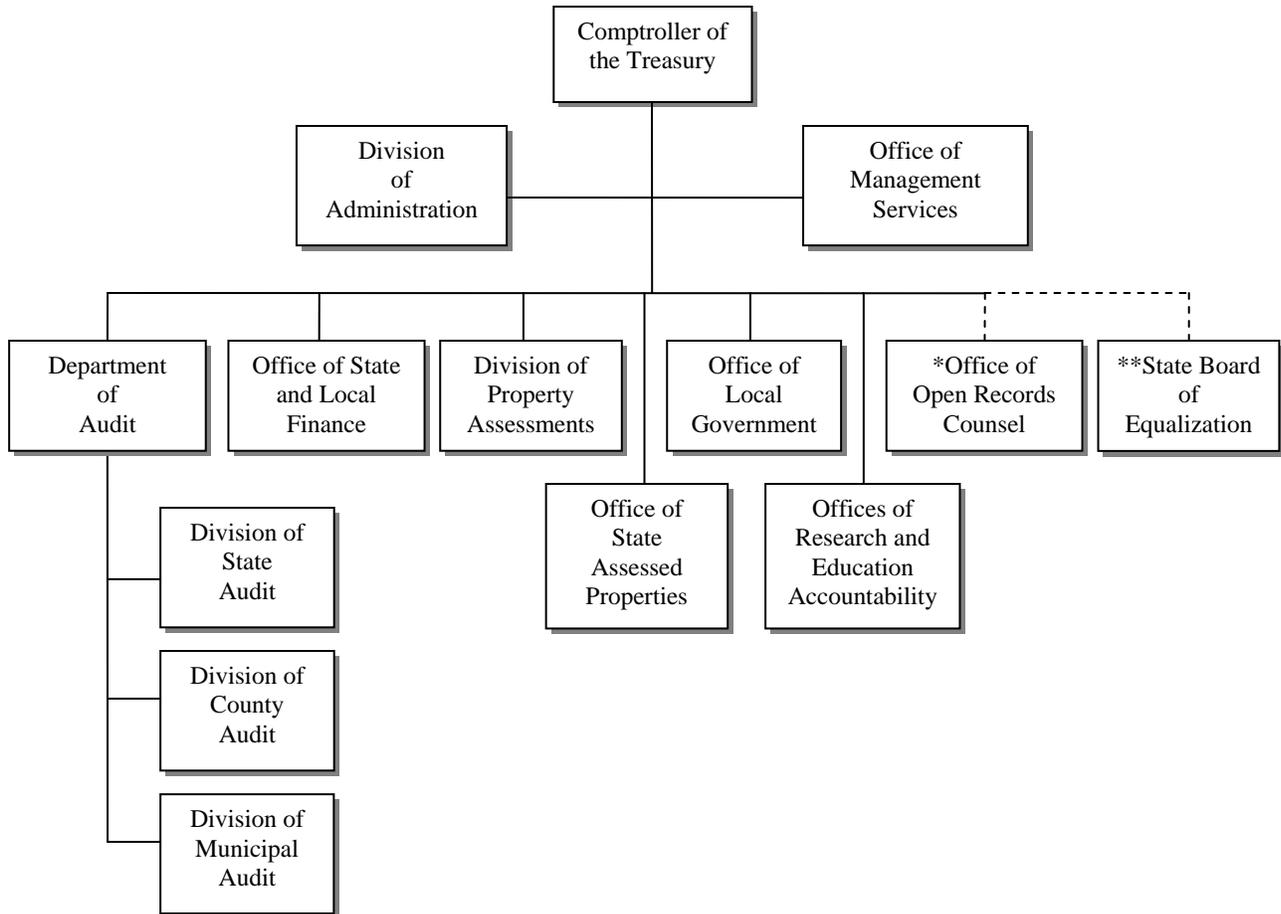
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CAPITOL PRINT SHOP CLOSURE

Our objectives in reviewing the closing procedures of the Capitol Print Shop were to determine whether

- procedures and controls were proper and in place during the closure of the Capitol Print Shop;
- equipment was properly disposed; and
- personnel were properly transitioned to retirement or other positions in state government after closure of the Capitol Print Shop.

Office of the Comptroller of the Treasury Organizational Chart



- * The Office of Open Records Counsel is housed within the Comptroller’s Office for administrative purposes.
- ** The Comptroller is a member of the State Board of Equalization, and the Board staff is housed within the Comptroller’s Office for administrative purposes.

To determine if procedures and controls were in place during the closure of the Capitol Print Shop, we conducted interviews with key personnel. The propriety of the disposal of Capitol Print Shop equipment was determined by reviewing change requests, e-mails, surplus requests, and lease agreements and through discussions with key personnel for all equipment item disposals. In order to assess whether personnel were properly transitioned to retirement or other positions in state government, we discussed the closure with key personnel and verified this information through discussions with Department of Human Resources staff.

As a result of our review of the Capitol Print Shop closure, we determined that

- procedures and controls were proper and in place during the closure of the Capitol Print Shop;
- equipment was properly disposed; and
- personnel were properly transitioned to retirement or other positions in state government after closure of the Capitol Print Shop.

REVENUES AND EXPENDITURES

Our objectives in reviewing revenues and expenditures were to determine whether

- the office experienced significant or unusual fluctuations in revenues;
- the office experienced significant or unusual fluctuations in operating expenditures;
- travel expenditures incurred by Comptroller employees were necessary and reasonable and reviewed by management for evidence of duplicate claims;
- cell phone and Blackberry expenditures incurred by employees were necessary and reasonable;
- the office experienced significant or unusual fluctuations in salary expenditures;
- expenditures related to the Integrated Multi Processing of Administrative and CAMA Technology (IMPACT) contract were necessary and reasonable;
- the office has procurement card controls in place;
- procurement cards were used to make unusual or large purchases and, in such cases, to determine if the related expenditures were properly approved and supported; and

- the Office of Management Services approved internal contracts in a timely manner.

To determine if the office experienced significant or unusual fluctuations in revenues, we obtained a summary of all revenues by division for the Comptroller's Office. We obtained fiscal year 2007 and 2008 data from prior audit working papers and fiscal year 2009 and 2010 data from the Edison system. We analyzed the changes in revenue from 2007 through 2010 and estimated the expected revenue for the current fiscal year. To determine if the office experienced significant or unusual fluctuations in expenditures, we obtained a summary of all expenditures by division for the Comptroller's Office. We obtained fiscal year 2007 and 2008 data from the State of Tennessee Accounting and Reporting System (STARS) data and fiscal year 2009 and 2010 data from the Edison system. We analyzed the changes in expenditures from 2007 through 2010 and estimated the expected expenditures for the current fiscal year.

We reviewed travel claims and the related support for all key employees and the Comptroller as well as a random sample of all other employees to determine if the travel expenditures incurred were necessary and reasonable. We also interviewed key personnel and reviewed supporting documentation to determine that management reviewed Edison reports for evidence of duplicate travel claims. In order to determine that travel expenditures appeared proper, we reviewed a listing of all travel expenditures for the audit period to ensure there was no evidence of excessive or unnecessary charges. To determine that cell phone and Blackberry expenditures incurred by employees were necessary and reasonable, we reviewed billing reports for four randomly selected months for all key employees and the Comptroller. We also interviewed, documented, and verified procedures for review and approval of cell phone and Blackberry expenditures.

To determine whether the office experienced significant or unusual fluctuations in salary expenditures, we obtained salary data by division from prior-audit working papers for fiscal years 2007 and 2008 and from Edison for 2009 and 2010. We performed analytical procedures by comparing the changes over time for each division's total payroll with current amounts. We reviewed all expenditures related to the IMPACT system to determine if they were reasonable and necessary. The auditor documented procurement card controls and verified that controls were in place. To determine whether procurement cards were used to make unusual or large purchases, we reviewed all procurement card statements and logs for unusual or large items. We also performed an analytical procedure by comparing fourth-quarter fiscal year 2010 procurement card expenditures against expectations developed from information received through interviews with key personnel and results of prior-audit testwork to determine if the office experienced any significant or unusual fluctuations in purchases made over time. To determine if the Office of Management Services approved internal contracts in a timely manner, we discussed the current controls over contracts with the Business Administration Manager, reviewed a draft copy of the upcoming policy manual changes, and interviewed division heads to obtain their perspective on the timeliness of the review process for internal contracts.

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

- the office experienced no significant or unusual fluctuations in revenues;

- the office experienced no significant or unusual fluctuations in operating expenditures;
- travel expenditures incurred by Comptroller employees were necessary and reasonable, with a few minor exceptions, and reviewed by management for evidence of duplicate claims;
- cell phone and Blackberry expenditures incurred by employees were necessary and reasonable;
- the office experienced no significant or unusual fluctuations in salary expenditures;
- expenditures related to the IMPACT system contract were necessary and reasonable;
- the office has procurement card controls in place;
- procurement cards were not used to make unusual or large purchases; and
- the Office of Management Services approved internal contracts in a timely manner.

PERSONNEL

Our objectives in reviewing personnel procedures were to determine whether

- management properly removed access to all systems for employees terminated during fiscal year;
- access to Edison was compatible with each employee's job duties; and
- office-wide policies and procedures were up-to-date.

To determine if employees' access to all systems was properly removed for terminated employees, we obtained a listing of all employees that were terminated during the fiscal year and reviewed personnel files for those employees as well as information from personnel to determine when the employees' access was removed. To determine if access to Edison was compatible with each employee's job duties, we obtained a listing of all Comptroller employees and their access in the system. We reviewed the access for key employees and a random sample of all other employees by comparing job duties to access roles shown on the listing of employees' access. To determine the status of the office-wide policies and procedures, we reviewed them on the Comptroller's intranet and discussed with the Assistant Director for Human Resources the steps taken to ensure policies and procedures are kept up-to-date.

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

- management properly removed employee access to all systems for employees terminated during the fiscal year;
 - access to Edison was compatible with each employee's job duties; and
 - office-wide policies and procedures were up-to-date.
-

EQUIPMENT

Our objective in reviewing equipment was to determine whether equipment items were properly transferred from the Property of the State of Tennessee system (POST) to the new Edison system.

To determine if equipment items were properly transferred from POST to Edison, we interviewed key personnel, obtained a listing of all assets for the Comptroller's Office, and reviewed e-mails between Comptroller employees and Department of Finance and Administration (F&A) employees requesting corrections to Edison equipment records. Through these procedures, we learned that Comptroller employees were correcting errors in the Edison equipment records, but their access was revoked in March 2009 and F&A employees started making corrections to Edison equipment records.

As a result of our review of equipment, we determined that equipment items were not properly transferred from POST to Edison due to problems in transferring POST data to Edison. After our review of supporting documentation and discussions with key personnel, we also determined that Comptroller employees attempted to correct the errors that resulted from the transfer of equipment from POST to Edison and continue to communicate with F&A employees to correct the remaining errors.

PROPERTY TAX RELIEF FUND

Our objective in reviewing the Property Tax Relief Program was to determine whether tax relief employees verified critical information entered in the Tax Relief Approval Information Network (TRAIN) system and whether tax relief employees with access to TRAIN can bypass TRAIN approval controls by entering payments directly in Edison.

We interviewed key personnel to determine whether tax relief employees verified critical information entered in TRAIN and whether tax relief employees with access to TRAIN can bypass TRAIN approval controls by entering payments directly in Edison. We observed the

various screens for evidence of employee approval on TRAIN that must be checked “OK to pay” for an application to be approved. We observed an employee’s attempt to review an application that he had examined earlier in the day and noted that the system would not allow him to make changes to any of the screens. To determine that tax relief employees with access to TRAIN cannot bypass TRAIN approval controls by entering payments directly in Edison, we obtained a listing from the Division of Information Systems for the Comptroller’s Office of all Property Tax Relief employees who had access to Edison. We then reviewed these employees’ Edison access to ensure their access would not allow them to directly enter payments.

As a result of our review of the Property Tax Relief program, we determined that tax relief employees verified critical information entered in TRAIN and tax relief employees with access to TRAIN cannot bypass TRAIN approval controls by entering payments directly in Edison.

EMERGENCY PREPAREDNESS PROCEDURES FOR DATA PROTECTION AND RECOVERY

Our objectives in reviewing emergency preparedness procedures for data protection and recovery were to determine whether

- controls were in place to provide reasonable assurance that the office will incur a minimal loss of data and function in case of an emergency; and
- key employees were aware of the disaster recovery plan and prepared to carry it out in case of an emergency.

To determine if the office had controls in place and key employees were aware of the disaster recovery plan and prepared to carry it out, we conducted interviews with key personnel and observed some of the procedures followed by the Information Technology section. We also reviewed a copy of the disaster recovery plan.

As a result of our review of emergency preparedness procedures for data protection and recovery, we determined that

- controls were in place which provide reasonable assurance that the office will incur a minimal loss of data and function in case of an emergency; and
- key employees were aware of the disaster recovery plan and were prepared to carry it out in case of an emergency.

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
307.04	Division of State Audit
307.05	Division of County Audit
307.06	Division of Municipal Audit
307.07	Office of State and Local Finance
307.08	Office of Local Government
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.14	Office of Research and Education Accountability
307.15	Office of State Assessed Properties
307.50	Telecommunications Ad Valorem Tax Equity

BOARDS AND COMMISSIONS

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

Access Improvement Project Committee
Basic Education Program Review 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 Highway Officials Certification Board
Tennessee Housing Development Agency
Tennessee Industrial Development Authority
Tennessee Industrial Finance Corporation
Tennessee Law Enforcement Advisory Council
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