PERFORMANCE AUDIT

Fiscal Review Committee

March 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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March 8, 2011

The Honorable Ron Ramsey
Speaker of the Senate
and
The Honorable Beth Harwell
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. James W. White, Executive Director
Fiscal Review Committee
320 Sixth Avenue North, 8th Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Fiscal Review Committee for the period July 1, 2007, through June 30, 2010.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Management of the Fiscal Review Committee is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit resulted in no audit findings.

We have reported one other less significant matter involving the Fiscal Review Committee's internal control to the Fiscal Review Committee's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ac
11/025

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Performance Audit
Fiscal Review Committee
March 2011

AUDIT SCOPE

We have audited the Fiscal Review Committee for the period July 1, 2007, through June 30, 2010. Our audit scope included a review of internal control and analytical procedures in the areas of expenditures and payroll and personnel. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The audit report contains no findings.

Performance Audit
Fiscal Review Committee

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INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the audit of the Fiscal Review Committee. 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.

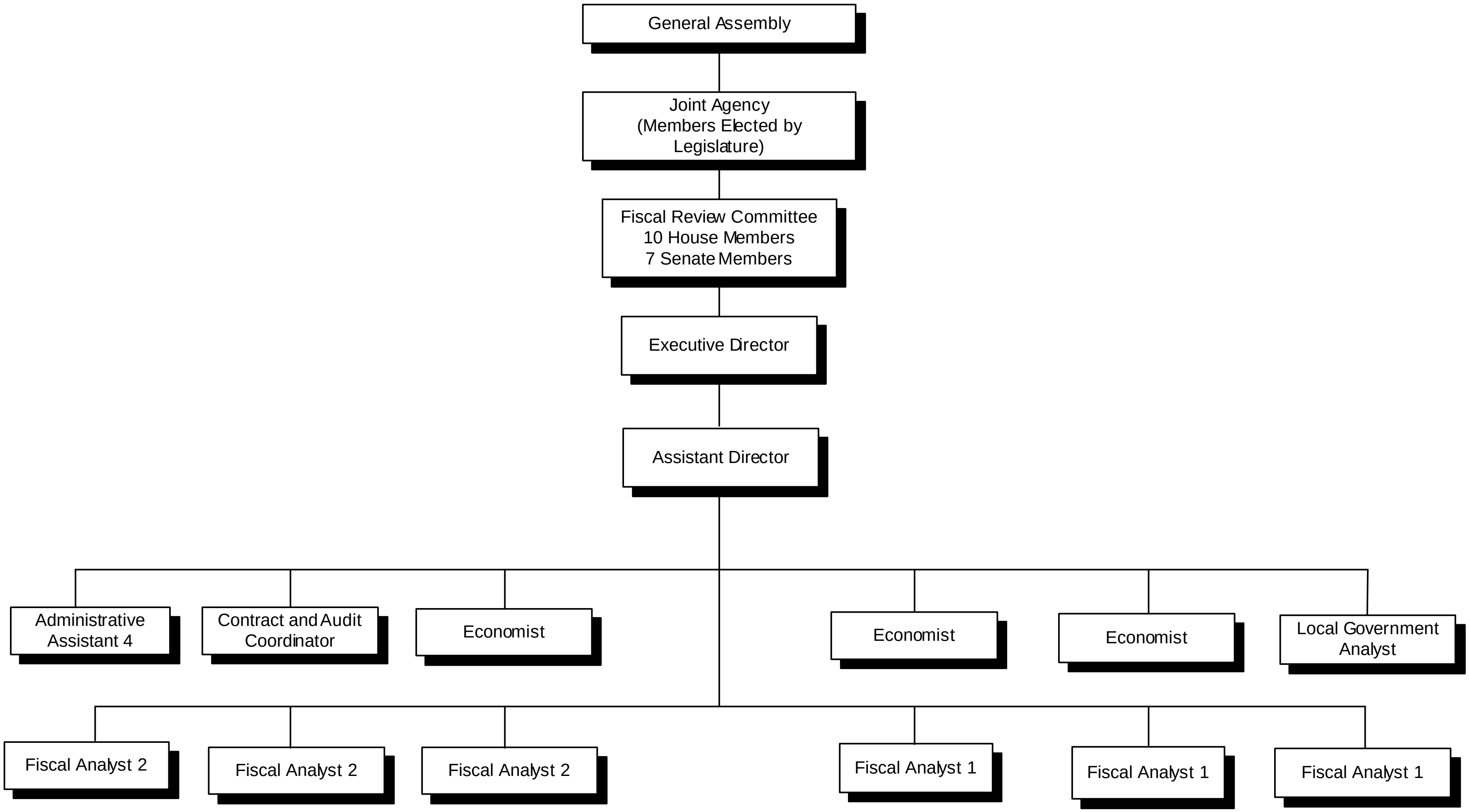
BACKGROUND

The 85th General Assembly established the Fiscal Review Committee in 1967 as a special, continuing committee to keep the members of the legislature informed of the fiscal matters of the State of Tennessee. The committee is composed of seven senators and ten representatives elected by their respective houses; the speakers of both houses; and the chairs of the Finance, Ways and Means Committees of both houses. The Comptroller of the Treasury serves as secretary and is directed to furnish staff as required.

The Fiscal Review Committee conducts a continuing review of the fiscal operations of state government. The committee is responsible for preparing and distributing the fiscal notes required by Section 3-2-107, *Tennessee Code Annotated*. With the Comptroller and the Commissioner of Finance and Administration, the committee is responsible for reviewing, at least annually, the organization and operation of state government to determine if changes are needed.

The Fiscal Review Committee is accounted for in allotment code 301.05. An organization chart of the committee is on the following page.

Fiscal Review Committee
Organization Chart



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PRIOR AUDIT FINDINGS

There were no audit findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

Our objectives in the review of expenditures were to

- obtain a general knowledge of the types and amounts of annual expenditures;
- obtain explanations for significant variances in expenditures, both budgeted and actual;
- determine if voucher registers were properly approved; and
- determine that expenditure reports received from the Department of Finance and Administration were reconciled with the committee's voucher registers and were properly approved.

We interviewed key employees to gain a general knowledge of the types and amounts of annual expenditures. We compared reports of current-year actual expenditures to prior-year actual expenditures and actual expenditures to budgeted expenditures for the audit period. Based on our analysis, we discussed significant variances with the committee's administrative staff, and we obtained and reviewed corroborating evidence for these variances. We obtained and reviewed voucher registers to determine whether management properly approved the voucher registers. We also reviewed the committee's reconciliations between expenditure reports received from the Department of Finance and Administration and the committee's voucher registers to determine if the reconciliations were completed and properly approved.

Based on our interviews with the committee's administrative staff, we gained a general knowledge of the types and amounts of annual expenditures. Supporting documentation for significant, actual, and budgeted expenditure variances, along with explanations obtained from the committee's administrative staff, was reasonable. Furthermore, we found that voucher registers were properly approved and reconciliations between Department of Finance and Administration reports and the committee's voucher registers were completed; however, we noted a minor deficiency that the Executive Director did not document his review and approval of the reconciliations.

Payroll and Personnel

Our objective in the review of payroll and personnel was to perform analytical procedures to detect significant variances in payroll expenditures and to obtain explanations and corroborating evidence for these variances.

We compared reports of current-year actual expenditures to prior-year actual expenditures and actual expenditures to budgeted expenditures for the audit period. Based on our analysis, we discussed significant variances with the committee's administrative staff, and we obtained and reviewed corroborating evidence for these variances.

Based on our interviews, our review and analysis of reports of actual and budgeted payroll, and our review of supporting documentation for significant variances, we found that the committee's administrative staff explanations were reasonable.

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.