



STATE OF TENNESSEE COMPTROLLER OF THE TREASURY

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

Performance Audit Report

April 2013

Justin P. Wilson
Comptroller of the Treasury



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COMPTROLLER OF THE TREASURY
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April 25, 2013

The Honorable Bill Haslam, Governor
State Capitol
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and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Robert Martineau, Commissioner
Department of Environment and Conservation
401 Church Street
L&C Annex, 1st Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of Environment and Conservation for the period July 1, 2009, through June 30, 2012.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. Management of the Department of Environment and Conservation has responded to the audit 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 internal control and instances of noncompliance to the Department of Environment and Conservation's management in a separate letter.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/agc
12076

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Department of Environment and Conservation
April 2013

AUDIT SCOPE

We have audited selected programs and activities of the Department of Environment and Conservation for the period July 1, 2009, through June 30, 2012. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of state parks and payment cards.

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 Department of Environment and Conservation is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

AUDIT FINDINGS

Finding 1 Management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts, and as a result, the risks of fraud, waste, abuse, and misappropriation of state funds are increased**

Finding 2 Management has not established adequate controls over gasoline and diesel fuel inventories, which increases the susceptibility of fuel inventories to fraud, waste, or abuse*

Finding 3 The department still did not follow established procedures for purchases made using payment cards, which increases the risk of fraud, waste, and abuse associated with potentially improper purchases*

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

Performance Audit

Department of Environment and Conservation

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Performance Audit

Department of Environment and Conservation

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Department of Environment and Conservation was conducted pursuant to Section 8-4-109, *Tennessee Code Annotated*, which 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.

ORGANIZATION AND STATUTORY RESPONSIBILITIES

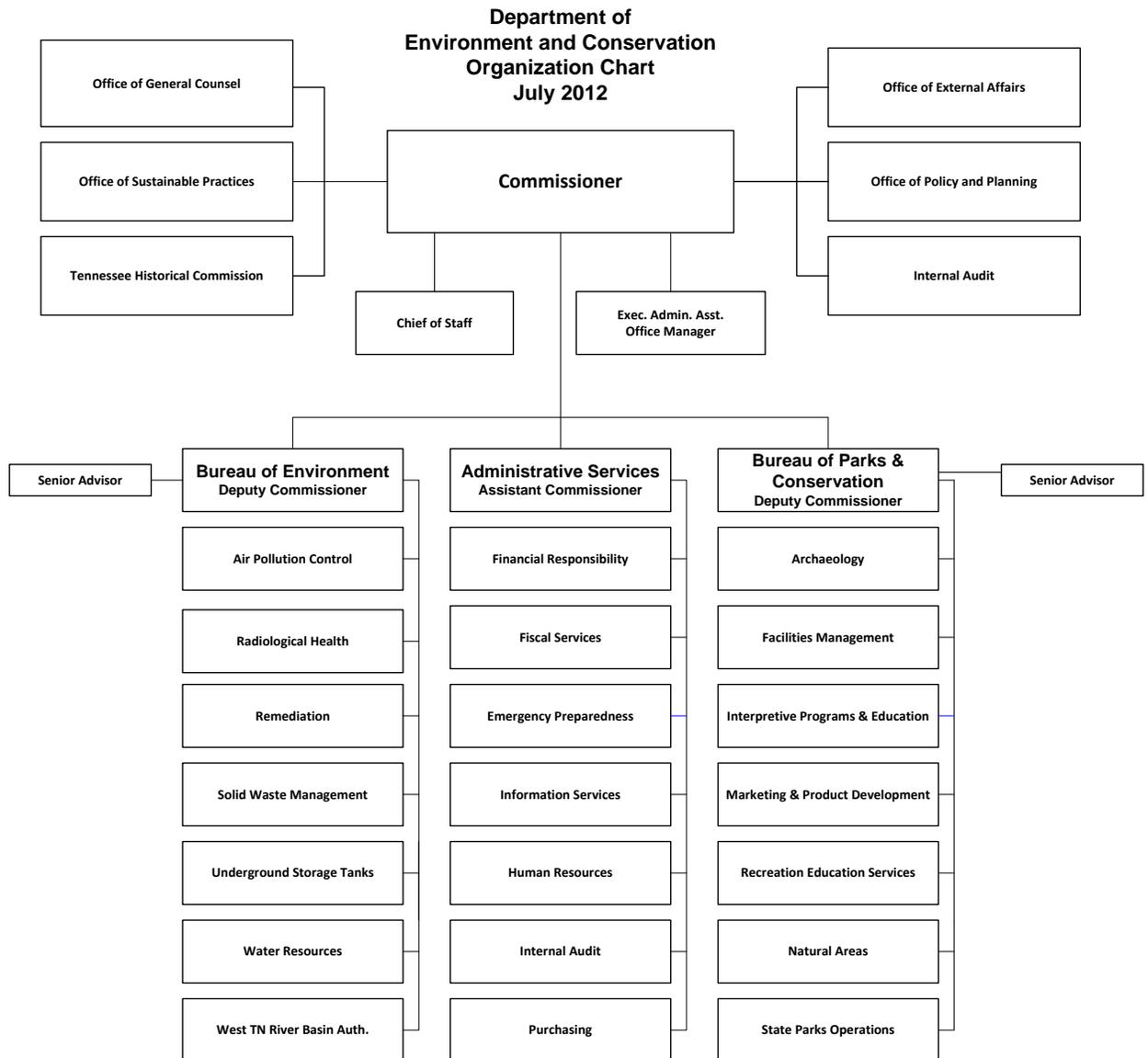
The Tennessee Department of Environment and Conservation is responsible for protecting and enhancing the quality of Tennessee's land, air, and recreation resources. The department is staffed by over 2,900 employees located in Nashville and in state parks and field offices across Tennessee. The three major sections of the department are

- Bureau of Environment,
- Bureau of Parks and Conservation, and
- Administrative Services.

The department, through the Bureau of Environment, serves as the state's chief environmental regulatory agency. By issuing permits, monitoring compliance, and enforcing penalties for violations of rules, the department regulates sources of air and water pollution, solid and hazardous waste processing and disposal facilities, radiological health issues, petroleum underground storage tanks, the drinking water supply, ground water protection, oil and gas exploration and drilling, and inactive hazardous substance sites; the bureau also provides geological services. Through the Bureau of Parks and Conservation, the department manages 54 state parks and 82 state natural areas. State parks include (1) resort parks that provide conference centers, golf courses, and marinas; (2) rustic parks that provide swimming, rafting, cabins, and camping; and (3) day-use parks that provide opportunities for hiking, fishing, and other activities. These two bureaus provide community outreach and education activities to support department goals. The Administrative Services Division provides fiscal services, human resource support, purchasing, information services, and other administrative aid to the department.

In addition to these three major sections, the department's Division of Internal Audit, Office of External Affairs, Office of General Counsel, Office of Policy and Planning, Office of Sustainable Practices, and Tennessee Historical Commission also report directly to the

Commissioner. An organization chart of the Department of Environment and Conservation is below.



AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 2009, through June 30, 2012. Our audit scope included a review of prior financial and compliance audit findings, current department processes, and internal controls and compliance with laws and regulations in the areas of state parks and payment cards.

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 Department of Environment and Conservation is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Environment and Conservation filed its report related to the July 2008 Financial and Compliance audit report with the Department of Audit on December 31, 2008. A follow-up of all unresolved prior audit findings from that report was conducted as part of the current audit.

The Office of the Comptroller of the Treasury released a sunset performance audit of the Department of Environment and Conservation in January 2012. The follow-up report from the department, detailing the results of implementing the findings from that report, was due after the completion of fieldwork of the current audit. Because the department did not have sufficient time to implement the recommendations of that audit, and did not file its report with the Department of Audit until January 18, 2013, we did not include follow-up of those findings in the scope of this audit.

RESOLVED AUDIT FINDINGS

During 2010, the Department of Audit performed a review of the eight findings listed in the July 2008 financial and compliance audit report of the Department of Environment and Conservation, which covered the period May 1, 2004, through June 30, 2007. That review disclosed that the department had corrected the previous audit findings concerning the risks of theft of funds resulting from inadequate controls over the state parks' Hospitality Management System and Point of Sale system, failure to follow the free and reduced meal policy at Henry Horton State Park, failure to record land acquired from the Tennessee Elk River Development Agency, and failure to disconnect communication lines which were not being used.

The current audit disclosed that the Department of Environment and Conservation has corrected the previous audit finding concerning the risks associated with inadequate segregation of duties over the inventories at the central office gift shop, the golf course pro shop at Henry Horton State Park, and the gift shop at Reelfoot Lake State Park.

REPEATED AUDIT FINDINGS

The 2008 financial and compliance audit report also contained findings concerning the risks associated with park management and staff failure to follow established procedures governing cash receipts, not establishing adequate controls over gasoline and diesel fuel inventories, and not following established procedures for purchases made using payment cards. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

STATE PARKS

The department manages 54 state parks, which include (1) resort parks that provide conference centers, golf courses, and marinas; (2) rustic parks that provide swimming, rafting, cabins, and camping; and (3) day-use parks that provide opportunities for hiking, fishing, and other activities.

The objectives of our review of the state parks were to

- visit Henry Horton and Nathan Bedford Forrest State Parks to determine if the department corrected prior audit findings related to the risks associated with park management and staff failures to follow established procedures governing
 - cash receipts,
 - controls over gasoline and diesel fuel inventories, and
 - purchases made using a payment card;
- visit Edgar Evins, Natchez Trace, and Warriors Path State Parks to determine that policies and procedures were followed for
 - cash receipts,
 - expenditures and purchases,
 - controls over gasoline and diesel fuel inventories,
 - reimbursement of personal telephone charges,
 - voids and no-sale transactions,
 - segregation of cash-handling duties,

- gift shop inventory,
- golf pro shop inventory,
- lost and/or stolen equipment, and
- leases.

We performed interviews of key personnel, performed walkthroughs of procedures, reviewed supporting documentation, and performed testwork to gain an understanding of internal controls and to determine the state parks' compliance with policies and procedures. We obtained and reviewed the department's risk assessment. We visited Henry Horton and Nathan Bedford Forrest State Parks, interviewed park employees, and performed testwork related to cash receipts, controls over gasoline and diesel fuel inventories, and purchases made using payment cards. We visited Edgar Evins, Natchez Trace, and Warriors Path State Parks; interviewed park employees; and assessed compliance with policies and procedures related to cash receipts, expenditures and purchases, controls over gasoline and diesel fuel inventories, reimbursement of personal telephone charges, voids and no-sale transactions, segregation of cash-handling duties, gift shop inventory, golf pro shop inventory, lost and/or stolen equipment, and leases.

Based on our interviews, reviews, and testwork, we concluded that

- cash receipts were not always deposited timely, as discussed in finding 1;
- staff did not regularly take fuel inventory measurements, as discussed in finding 2;
- staff did not reconcile the differences of gasoline and diesel fuel on-hand to the inventory records, as discussed in finding 2;
- management and staff did not monitor, investigate, or properly report differences in the amount of gasoline and diesel fuel used per the fuel tickets to the actual gallons pumped based on pump meter readings, as discussed in finding 2;
- expenditures and purchases made using payment cards were properly approved, supported, and made in accordance with state and department guidelines;
- reimbursement of personal telephone charges was made in accordance with the department's policy;
- voids and "no-sale" transactions were not always properly reviewed and approved, as discussed in finding 1;
- cash-handling duties at the parks were not always segregated, as discussed in finding 1;

- proper procedures were followed for safeguarding and accounting for gift shop and golf pro shop retail inventories; and
- proper procedures were followed for lost and/or stolen equipment and leases, except for two cases of late reporting that we shared with management in a separate letter.

See finding 1 and finding 2 below for details of our conclusions.

1. Management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts, and as a result, the risks of fraud, waste, abuse, and misappropriation of state funds are increased

Finding

Employees at Tennessee state parks receive cash at various locations, including golf courses, inns, restaurants, and gift shops. Although management has written policies and procedures which, if followed, would reduce the risk of theft, department management has not ensured that park management and staff follow the established policies and procedures already in place.

As noted in the prior six audits, the department’s control environment and related controls over cash receipts at the state parks were inadequate. In prior audits, management stated that it would correct the problem. Specific responses from management are listed in the appendices to this report. In addition, during the current audit, top management reported through our fraud risk interviews that the most likely area for fraud to occur would be in cash receipts at the state parks. Nevertheless, problems were again noted with the cash receipting process. These problems included the following:

Henry Horton State Park

- We found that management of the golf course, the inn, and the restaurant did not review voided transactions on a daily basis. According to the *Hospitality Management System Procedures Manual*, “All refunds should be reviewed daily by management to insure validity and support for the refunds or voids being made at their location. Resort management should initial and date the report sheets to indicate their approval of the daily refunds and voids made.”
- We found that management of the golf course, the inn, and the restaurant did not review daily the number of no-sale rings for each day. According to the department’s *Administrative Policies and Procedures Manual*, Chapter 1, Section 5.5, POS Register Controls, “Management is required to monitor the number of ‘no-sale’ transactions by initialing the number of ‘no-sales’ recorded on the No-Sale Access (PRM Menu) or Daily Preview Report.”

- During testwork on transactions at the Golf Pro Shop, we found that 6 of 25 voids (24%) were not properly documented. We found that three of the voids did not have the required correction slip completed and three did not have management's approval.

Policies and procedures are designed to ensure management and staff perform appropriate reviews over cash transactions, including the cash transactions such as voids and no-sales, which are more likely to be manipulated to cover thefts of cash. When management and staff fail to follow the established policies and procedures, the risk of cash errors and thefts can occur and not be detected timely.

Nathan Bedford Forrest State Park

We found that park management had not adequately segregated cash-related duties. The office clerk opened the mail, prepared the receipts, prepared the deposits, and prepared the information sent to the central office for posting to the accounting records. When management does not adequately segregate cash-related duties or perform sufficient reviews, management cannot readily identify errors made in the cash process and may not detect losses or theft of cash promptly.

Edgar Evins State Park

- We found that for 3 of 25 days of cabin cash receipts tested (12%), staff did not follow established policies. For two of the days tested, staff did not deposit the daily cash receipts immediately, in accordance with the Department of Finance and Administration's Policy 25, "Deposit Practices Policy." The policy defines "immediately" to mean "within 24 hours after \$500.00 has been accumulated...." We also found that staff did not maintain documentation of approval for a voided sale for one of the days' receipts tested.
- For 14 of 25 days of campground cash receipts tested (56%), the daily cash receipts were not processed properly. For ten of the cash-receipt days tested, the park manager did not sign the retail operational report certifying that the report has been reviewed and approved as true and accurate. For the other four days, we found no evidence that more than one person participated in the count of cash received, which is a control to ensure accountability when handling cash. Also, for four days, staff failed to follow policy and deposit the daily cash receipts immediately so that cash is appropriately safeguarded as soon as possible.

Natchez Trace State Park

We found that 5 of 25 restaurant and gift shop receipts (20%) were found to have voided transactions with no original voided receipt attached to the correction slip to explain why the transaction was voided.

Conclusion

We also reviewed management's risk assessment, and the issues noted above had been identified as potential risks; however, management did not ensure controls were adequate and in place to mitigate the risks.

Without an adequate control environment to ensure that park management and staff follow established policies and procedures, perform sufficient reviews, and segregate cash-related duties, the risk of fraud, waste, abuse, and misappropriation of cash is increased. Most importantly, employees could easily steal state funds without detection by management.

Recommendation

The Commissioner and department management should take steps to ensure the consistent application of departmental policy with regard to cash receipts at all state parks and should ensure deposits are made in a timely manner; there is proper segregation of duties or compensating controls at state parks; at least two people participate in the counting of daily receipts; receipts are maintained as required by policy; and there is daily review of void and no-sale transactions and investigation of any that appear unusual.

Management should continue to evaluate risks and implement related controls to mitigate risks where necessary, and it should document both in its annual risk assessment reports.

Management's Comment

The department concurs with this finding. Park management realizes the importance of complying with established policies and procedures related to cash receipts and cash deposits. Park managers, park rangers, and park administrative staff attended classes in 2013 that covered the majority of issues in this finding. The training provided to TDEC staff ensured that management will have procedures in place to meet the requirements of fiscal policy and ensure that cash receipts vouchers are prepared and/or voided according to Chapter 2 of the *Administrative Policies and Procedures Manual*. Training also ensured that deposits should be made in a timely manner as provided in Chapter 2, Sec 5.6 of the *Policies and Procedures Manual*. The training covered the area where the deposit slip should have all three signatures and should be dated on the day of preparation in accordance with the *Policies and Procedures Manual*, Chapter 2, 5.9.1. Management feels that overall improvements in these areas at all parks will be made as a result of these classes. The department also recognizes that training must be offered continually due to employee turn-over and as refreshers to long-term staff.

We will continue to instruct park employees on the proper procedures to follow regarding receipting cash, depositing cash, voiding gift certificates, and reviewing "no sale" transactions. The importance of segregation of duties related to these procedures will be emphasized. Management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks will create other checks and balances to

alleviate the lack of staffing, which is not likely to be corrected with the current budget problems facing state parks. Management will continue to evaluate risks and implement related controls to mitigate risks where necessary. Management documented both in its 2012 annual risk assessment reports and will continue to address both controls in forth-coming reports.

2. **Management has not established adequate controls over gasoline and diesel fuel inventories, which increases the susceptibility of fuel inventories to fraud, waste, or abuse**

Finding

As noted during the prior audit, we found that management had not established adequate controls over the department's fuel inventories, which resulted in staff's failure to account for gasoline and diesel fuel inventories as required by the department's policies and procedures. Gasoline and diesel fuel are stocked at various state parks, particularly those in rural areas, and are used for park-assigned vehicles, lawn equipment, and other park maintenance needs. Proper controls established by the department and recorded in Chapter 32, Section 5.6, of the department's *Administrative Policies and Procedures Manual* require a daily fuel inventory measurement (stick test), completion of a fuel ticket each time gasoline or diesel fuel is dispensed from the tank, and a daily record of the pump meter amount. The amounts resulting from the three sources (stick test, fuel tickets, and pump meter) should reconcile on the Daily Tank Inventory Form, maintaining control over the inventory of gasoline and diesel fuel. Any material differences are required to be investigated and reported to the appropriate officials.

We found through testwork that staff did not regularly take fuel inventory measurements; did not reconcile the differences of fuel on hand to the inventory records; and did not monitor, investigate, or report differences between the amount of fuel used according to the fuel tickets and the amount used according to the pump readings.

We noted the following weaknesses at the state parks we visited:

Henry Horton State Park

- For 10 of 23 days in which fuel was pumped (43%), we found that staff did not investigate or report to appropriate officials significant differences between the fuel use tickets and the pump readings. Differences ranged from one gallon to 160 gallons.
- At the golf course maintenance shop, staff performed the stick test but incorrectly completed the Daily Tank Inventory Form for 10 of 23 days tested (43%). Since the form was completed incorrectly, staff were unable to reconcile the amount of gas in the tank according to the stick test with the amount pumped according to the fuel tickets to determine if there were any variances.

- For one of 25 days tested (4%), staff did not perform the required stick test to measure the amount of fuel in the tanks.

Nathan Bedford Forest State Park

- Although staff performed daily stick tests, we found that staff did not reconcile the amount from the stick test with the amount according to the fuel tickets for 9 of 25 days tested (36%). This resulted in staff being unable to determine if there was a variance between the amount of fuel that should be in the tank according to the fuel tickets and the amount of fuel actually in the tank according to the stick test.

Natchez Trace State Park

- For 23 of 40 days tested (58%), staff did not perform the required stick test to measure the amount of fuel in the tanks.
- For 6 of 17 stick tests reviewed (35%), we found that staff did not investigate or report to appropriate officials significant differences between the amount from the stick test and the amount from the pump reading. The differences ranged from 10 to 26 gallons.
- For 2 of 40 days tested (5%), staff did not investigate or report to appropriate officials significant differences between the amount shown as pumped on the fuel tickets and the amount shown as dispensed by the pump reading. The differences were 14 and 39 gallons.

Warriors Path State Park

- For 15 of 25 days tested in which fuel was pumped (60%), we found staff did not investigate or report to appropriate officials significant differences identified when comparing the fuel tickets to the pump reading. The differences ranged from one to 42 gallons.
- Although staff performed daily stick tests, for 23 of 23 days tested (100%) staff did not reconcile the amount from the stick test to the amount from the fuel tickets to ensure fuel dispensed reconciled to the fuel on hand at the golf course maintenance shop. Thus, staff were unable to determine if there were any variances.

When not following department procedures and utilizing the controls in place, employees of the department may not detect or prevent loss of gasoline or diesel fuel occurring from instances of fraud, waste, abuse, or negligence. With the increasing cost of fuel, the financial impact of this loss could be significant.

According to department management at the central office, the manually operated gas and diesel fuel pumps at the state parks are old. Fuel tickets are completed manually and later

reconciled manually to the amount measured by the stick test. Inaccuracies by staff using this method are relatively likely.

The auditor reviewed the department's risk assessment and determined that management had listed that the risk of theft and/or loss of fuel was reasonably possible. Management stated that it "would designate specific employees responsible for fuel inventory to oversee reconciling fuel tickets, the addition of fuel into inventory, and sticking the tank." As noted throughout this finding, management's controls over fuel inventory were not sufficient to mitigate the risks of theft or loss of inventory.

Recommendation

The Commissioner and department management should ensure staff follow department procedures and controls to maintain accurate fuel inventory records and prevent loss of fuel by (1) daily measuring the amount of gasoline and diesel fuel in the tanks, (2) using the Daily Tank Inventory Form to reconcile the amount from the stick test to the inventory records, (3) reconciling the amount of fuel used according to fuel tickets with the amount of fuel pumped according to the pump meter, and (4) investigating and reporting material differences. Management should include risks and related controls in the annual risk assessment. Management may wish to investigate alternatives to stocking gasoline and diesel fuel at state parks.

Management's Comment

The department concurs with this finding. Park management realizes the importance of complying with the department's policies and procedures related to fuel inventories. Park managers, park rangers, and park administrative staff attended classes in 2013 that covered the majority of issues in this finding. The training provided to TDEC staff will ensure that management will have procedures in place to follow the established adequate controls over the department's fuel inventories that will result in staff's success to account for gasoline and diesel fuel which are stocked at various state parks, park assigned vehicles, lawn equipment, and other park maintenance needs. We feel that overall improvement in this area at all parks will be made as a result of these classes.

We will continue to instruct employees on the proper procedures to follow regarding controls over gasoline and diesel inventories. Management will instruct employees to regularly measure tanks on a daily basis and reconcile the measurement by using the Daily Tank Inventory Form to reconcile the amount from the stick test to the inventory records. We will continue to reconcile the amount of fuel used according to fuel tickets with the amount of fuel pumped according to the pump meter. Management will continue to investigate and report material differences. Management will continue to include risks and related controls in the annual risk assessment.

PAYMENT CARDS

Department of Finance and Administration Policy 29, “State Contracts for Credit and Debit Cards,” revised June 17, 2007, facilitates procurement, administration, accountability, and necessary internal control systems for credit and debit card contracts, to ensure the state obtains economic benefits and efficiencies of economies of scale through such contracts. The policy made the state payment card the preferred method of payment for small-value delegated (local) purchases of \$2,000 or less, payments made in accordance with agency guidelines for items that do not require a purchase order, payments by designated central office fiscal personnel for items that do not require purchase orders, and payments resulting from the Department of Finance and Administration contracting rules, with approval from the Division of Accounts.

The objectives of our review of the payment card purchases were to determine whether

- purchases made using payment cards were reasonable, adequately supported, and properly approved;
- purchases made using payment cards did not exceed the single-purchase dollar limit;
- purchases made using payment cards complied with the *State of Tennessee Payment Card Cardholder/Approver Manual*;
- payment card transaction logs had been reconciled to the monthly statements;
- payment card cardholders had a signed application and maintenance form and a cardholder agreement on file; and
- cardholder cycle dollar-limit increases were justified.

We reviewed the applicable rules and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over payment cards. We tested a sample of payment card transactions for reasonableness, adequate support, and proper approvals. We tested for purchases which exceeded the single-purchase dollar limit and for compliance with the *State of Tennessee Payment Card Cardholder/Approver Manual*. We reviewed a sample of payment card transaction logs to determine whether staff reconciled the logs to the monthly statements. We reviewed the files of cardholders to determine if management obtained signed applications and if maintenance forms and cardholder agreements were on file. We reviewed the department’s justification for cardholder cycle dollar-limit increases.

As a result of our review and testwork, we concluded that

- purchases made using payment cards were reasonable, adequately supported, and properly approved;

- some payment card purchases exceeded the single-purchase dollar limit and did not comply with the *State of Tennessee Payment Card Cardholder/Approver Manual*, as discussed in finding 3;
 - some payment card transaction logs had not been reconciled to the monthly statements, as discussed in finding 3;
 - not all payment card cardholders had a signed application, maintenance form, and cardholder agreement on file, as discussed in finding 3; and
 - the justification for cardholder cycle dollar-limit increases was not always documented, as discussed in finding 3.
3. **The department still did not follow established procedures for purchases made using payment cards, which increases the risk of fraud, waste, and abuse associated with improper purchases**

Finding

The Department of Finance and Administration (F&A) implemented the State Payment Card system in March 2002 to provide departmental personnel an alternative payment method for small purchases. To establish procedures for this program, F&A published the *State of Tennessee State Payment Card Cardholder/Approver Manual* (cardholder manual). This manual was written to complement, not replace, the State's *Agency Purchasing Procedures Manual*. As noted in the prior audit, we found that the Department of Environment and Conservation did not comply with some of the procedures in these manuals.

Section 2.1 of the cardholder manual states that the "State Payment Card New Account Application and Maintenance" forms "must be signed by the employee, the employee's supervisor, and the cardholder's division authority (as determined by each agency)." The form must be forwarded to the Agency Coordinator for approval. An additional form, the "Cardholder Agreement," is mentioned in Section 2.2 of the cardholder manual, which states the cardholder must "agree to and sign the Cardholder Agreement," and the cardholder's primary approver must "agree to and sign the State Payment Card Approver Agreement." The manual also defines the limit placed on purchase amounts and disallows split invoices. Section 3.1 of the cardholder manual defines the "Single Purchase Limit" (SPL) as "The dollar amount that a Cardholder can spend per individual transaction. The SPL is determined by each agency on an individual cardholder basis." Section 4.2 of the cardholder manual reads, "Purchases shall not be artificially divided so as to appear to be purchases under \$2,000. Such practice is referred to as a 'split invoice' and is prohibited."

Applications and Agreements

At the time of our audit fieldwork, the department had 327 payment cards issued to employees. We selected 40 individuals with active accounts, tested the department's applications and agreements, and found the following problems:

- The department's Agency Coordinator for the payment card program did not ensure that all State Payment Card New Account Application and Maintenance forms were properly approved and on file. Forms for seven of the 40 cardholders tested (17.5%) did not have all required signatures.
- For one of 40 cardholders tested (2.5%), the Agency Coordinator was unable to provide the State Payment Card Application and Maintenance form.
- For 6 of 40 cardholders tested (15%), the Agency Coordinator did not ensure that State Payment Card Agreements had the required signatures.

Single-Purchase Dollar Limit

Occasionally, there is a need to increase the single-purchase dollar limit or the cycle dollar limit for an established cardholder, and the cardholder manual addresses these situations. According to Section 2.5 of the cardholder manual, "the Cardholder's division authority must approve increases to single purchase dollar limits and cycle dollar limits." Management's authorization and justification of increases in the cardholders' cycle dollar limits is essential for monitoring purchases.

Based on our testwork, we found that the department's Agency Coordinator did not adequately document the justification for cardholder cycle dollar-limit increases. We tested cardholders whose cycle dollar limit was increased during the audit period and found that for four of five cardholders (80%), the Agency Coordinator could not provide evidence of the justification for the increase in purchasing capability. The Agency Coordinator has since reduced those cardholders' cycle dollar limits.

Additional Noncompliance With Payment Card Rules

In addition to the problems noted above with the cardholders' accounts, we found the following problems when testing payment card purchases:

- One of 25 payments (4%) exceeded the single-purchase dollar limit. According to the cardholder manual, "The SPL cannot exceed \$2,000 unless approved by the Division of Accounts." Per discussion with the Agency Coordinator, the Division of Accounts has not approved any purchases over \$2,000 for the department.
- In 3 of 25 payments tested (12%), the purchase appeared to be a split invoice. The payments were made to the same vendor on either the same day or a day apart.

Reconciliation of Logs to Statements

Each cardholder is responsible for creating a transaction log when the payment card is used. After the end of each monthly cycle, usually around the 20th of the month, the cardholder reconciles the transaction log to the card's monthly statement. According to Section 5.4 of the cardholder manual,

The Cardholder must sign and date the cycle statement. The Cardholder must then reconcile that cycle statement to the corresponding cycle transaction log. Each transaction on the log must be marked reconciled (R), problem (P), disputed (D) or carryforward (C). The Cardholder must certify each transaction log page by signing and dating it. The certified transaction log page(s), receipts, and signed cycle statement must be forwarded to your designated Approver for review and approval. The Approver will also certify the transaction log page(s) and then will forward the documentation to your Agency Coordinator.

We selected a sample of 25 transaction logs and reviewed for compliance with written payment card procedures. The results are listed below.

- Two of 25 transaction logs (8%) did not contain the required cardholder and/or approver signatures.
- For 12 of 25 transaction logs (48%), there was no evidence that the cardholder reconciled the payment card statement to the transaction log.
- For two of 25 transaction logs (8%), neither the transaction log nor the reconciliation was dated; therefore, we could not determine whether the completed reconciliation was submitted timely to the department's payment card Agency Coordinator.

Based on our testwork of the items noted above, it appeared that though the department's controls over payment card transactions were deficient, the purchases cited were for appropriate business purposes. We reviewed management's risk assessment to determine if management had appropriately identified risks of noncompliance, fraud, waste, and abuse for the payment card process and found that management had failed to identify the risks or mitigating controls. The risk of fraud or abuse in payment card transactions is inherently high. When established controls are not followed, management and staff cannot ensure that purchases are necessary, authorized, and in compliance with purchasing policies and procedures.

Recommendation

Management of the Department of Environment and Conservation should monitor the administration of the payment card program in the department to ensure that staff follow established policies and procedures for payment card transactions and that training is provided as necessary to staff responsible for using, approving, and managing payment cards.

Management should continue to evaluate risks and controls and to include them in the documented risk assessments. Management should ensure the staff responsible for the design and implementation of controls periodically evaluate those controls. Management should ensure that staff responsible for compliance are effectively monitoring and taking corrective action when exceptions occur. All controls and control activities should be adequately documented.

Management's Comments

We concur. In response to the audit finding we have performed the following tasks. An internal review of the Department's payment card holder files was conducted through the period ending November, 30, 2012.

1. We confirmed that each payment card holder's file contained a State Payment Card New Account Application and Maintenance form that was properly completed and contained all required signatures.
2. We confirmed that each payment card holder's file contained State Payment Card Agreements and had the required signatures.
3. We confirmed that purchases with a limit placed on purchase amounts should be monitored as well as the disallowance of split invoices as defined by the *Cardholder Manual*, Sections 3.1, 4.1, and 4.2, which indicate that purchases shall not be artificially divided so as to appear to be purchases under \$2,000.00. Such practice is referred to as a split invoice and is prohibited. The split invoices area was also covered in the classes and the meetings conducted in 2013. The Director of Purchasing gave an intensive, detailed meeting covering the split invoices area to avoid this happening again. This area was addressed and will continue to be addressed in the Risk Assessment.

Additionally, for new payment card holders, the employee must perform the following tasks before a new card is issued:

The perspective card holder must complete the following:

- A. State Payment Card New Account Application & Maintenance form
- B. State Payment Card Holder Agreement
- C. State Payment Card Approver Agreement for the payment card holder
- D. Complete the Payment Card Training exam and print the certification of completion for submission with the application. It should be noted that the training addresses the purchasing rules governing the use of payment cards (i.e., single-purchase dollar limits, split invoices, etc.).

Additionally, the TDEC Agency coordinator is required to perform the following tasks:

- a. Review the application and agreements for completion.
- b. Ensure that the State Payment Card Agreements are properly signed.
- c. Provide additional training specific to the needs of TDEC for each payment card holder. (Training will normally occur at Quarterly Regional Meetings for state park employees and Environmental Division training for environment employees.)
- d. Provide the TDEC Procurement Director with a copy of the Citibank credit card statements, transaction logs, and supporting receipts for each billing cycle. This documentation is reviewed to ensure that purchasing rules are being followed and that split invoices are not occurring.

We also have procedures in place to ensure that management provides written justification for payment card holders who have increased single-purchase limit or cycle dollar limit increases.

APPENDICES

Appendix 1

Management's Comments From Prior Audits

Current Finding #1

Management has not mitigated the risks associated with park management and staff failures to follow established policies and procedures governing cash receipts, and as a result, the risks of fraud, waste, abuse, and misappropriation of state funds are increased

Management's Comments – For the Period May 1, 2004, Through June 30, 2007

We concur. Park management realizes the importance of complying with established policies and procedures related to cash receipts and cash deposits. Park managers, park rangers, and park administrative staff attended classes in 2007 that covered the majority of issues in this finding. Management feels that overall improvements in these areas at all parks will be made as a result of these classes.

We will continue to instruct park employees on the proper procedures to follow regarding receipting cash, depositing cash, voiding gift certificates, and reviewing “no sale” transactions. The importance of segregation of duties related to these procedures will be emphasized.

However, as pointed out in the last audit, management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks with small staffs will establish other checks and balances to alleviate the lack of staffing which is not likely to be corrected with the current budget problems facing state parks.

Management's Comments – For the Period July 1, 2001, Through April 30, 2004

We concur. The department has decentralized the management structure of Tennessee State Parks. The parks are now managed by four Area Managers who report to the Director of State Park Operations. The addition of the Area Managers and the continued efforts of four Hospitality Services field positions create a management team that will ensure better compliance within Tennessee's 54 state parks. The department also recognizes that training must be offered continually due to the employee turnover and as refreshers to long-term staff. Management has concerns regarding the small staffs at some parks, which will not allow strict segregation of duties without additional staff. The parks will create other checks and balances to alleviate the lack of staffing which is not likely to be corrected with the current budget problems facing state parks.

Management's Comments – For the Period July 1, 1999, Through June 30, 2001

We concur. During the audit period, management provided training to all park management on proper internal control procedures and stressed the importance of maintaining adequate documentation. However, the department recognizes that such training must be offered continually due to employee turnover and as refreshers to longer-term staff. Furthermore, management recognizes that in some instances park staffing will not allow strict segregation of duties, but other compensating controls will be used to alleviate the lack of staffing, which is not likely to be corrected with the current budget problems facing state parks.

Specifically, management will establish written procedures regarding "no sale" rings, voids, and other cash controls, and in September 2002, management distributed a new tool to assist resort park management in evaluating their internal controls. This new tool is entitled "Internal Controls Self Audit" and will provide a concise review of the controls at the resort operations.

Management's Comments – For the Period July 1, 1997, Through June 30, 1999

We concur that during the audit period, cash receipt controls were weak. However, since that time management has reminded all park personnel of Chapters 2 and 44 of the department's *Fiscal Procedures Manual* which addresses all phases of cash receipts and vending machine operation. Management has stressed to its employees the requirement to follow those policies. Training on proper cash receipt internal controls will continue to be stressed as part of internal audits and as part of daily training provided to the individual parks.

Management is evaluating and limiting access to the safe containing cash receipts to only those employees whose access is critical to their job function. Additionally, steps have been taken to ensure that the combination to the safe is changed on a periodic basis and knowledge of

the combination is strictly limited. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures including physical reviews by members of management.

Furthermore, we believe the installation of the new Hospitality Management System and Point of Sale Systems at the resort parks will strengthen cash receipting procedures at all points of sale at these parks.

Management's Comments – For the Period July 1, 1995, Through June 30, 1997

We concur. Chapters 2 and 44 of the department's *Fiscal Procedures Manual* address all phases of cash receipts and vending machine operation. Management will remind park personnel of those policies and stress the requirement to follow those policies. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures. Management will evaluate and limit access to the safe containing cash receipts to only those employees whose access is critical to their job function.

Management currently prepares profit-and-loss statements for the parks' restaurant operations. This accounts for \$5.7 million or 77% of the total retail revenues. The department intends to refine this process and increase this coverage to at least 90% of retail sales by preparing profit-and-loss statement on all retail operations in the resort parks.

The department's Internal Audit division performs sales tests and inventory turnover tests as part of their audit of individual parks; however, these tests are not routinely performed on all parks. Management will institute such testing on a more routine basis.

Management's Comments – For the Period July 1, 1993, Through June 30, 1995

We concur. Park managers at all state parks will implement procedures to strengthen control over cash receipts and monitor compliance with their procedures.

Current Finding #2

Management has not established adequate controls over gasoline and diesel fuel inventories, which increases the susceptibility of fuel inventories to fraud, waste, or abuse

Management's Comments – For the Period May 1, 2004, Through June 30, 2007

We concur. Management realizes that due to the soaring gasoline/diesel prices, internal controls over these inventories are especially important today more than ever. Park managers, park rangers, and park administrative staff attended classes in 2007 that covered *Chapter 32, Inventories of the Administrative Policies & Procedures Manual*. We feel that overall improvement in this area at all parks will be made as a result of these classes.

We will continue to instruct park employees on the proper procedures to follow regarding controls over gasoline and diesel inventories. Management will instruct employees to regularly measure tanks and reconcile the measurement with the perpetual inventory records. Any major discrepancies between the fuel measurements and fuel records will be investigated.

Current Finding #3

The department still did not follow established procedures for purchases made using payment cards, which increases the risk of fraud, waste, and abuse associated with potentially improper purchases

Management's Comments – For the Period May 1, 2004, Through June 30, 2007

We concur. Management and the payment card coordinator have taken action to improve internal controls and compliance with the payment card manual. Regular meetings now occur between management from Accounting and Purchasing and the Payment Card Coordinator to discuss and resolve potential problems. Management will continue to emphasize the importance of following established payment card procedures.

Appendix 2

Business Unit Codes

Department of Environment and Conservation Business Unit Codes

327.01	Administrative Services
327.03	Recreation Educational Services
327.04	Historical Commission
327.06	Land and Water Conservation Fund
327.08	Division of Archaeology
327.11	Division of Geology
327.12	Tennessee State Parks
327.15	Tennessee State Park Maintenance
327.17	Tennessee Elk River Resource Management
327.18	Maintenance of Historic Sites
327.19	Local Parks Acquisition Fund
327.20	State Lands Acquisition Fund
327.22	State Lands Compensation Fund
327.23	Used Oil Collection Program
327.24	West Tennessee River Basin Authority Maintenance
327.26	West Tennessee River Basin Authority
327.28	Tennessee Dry Cleaner Environmental Response Fund
327.30	Environment Administration
327.31	Air Pollution Control
327.32	Radiological Health
327.33	Clean Water and Drinking Water State Revolving Fund
327.34	Water Pollution Control
327.35	Solid Waste Management
327.36	Department of Energy Environmental Oversight
327.37	Abandoned Lands Program
327.38	Hazardous Waste Remedial Action Fund
327.39	Division of Water Supply
327.40	Groundwater Protection
327.41	Underground Storage Tanks
327.42	Solid Waste Assistance Fund
327.43	Environmental Protection Fund
327.44	Fleming Training Center
327.50	Tennessee Heritage Conservation Trust Fund
327.51	Conservation Compensation Fund