STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Office of Legislative Administration

Performance Audit Report

January 2014

Justin P. Wilson
Comptroller of the Treasury

TENNESSEE COMPTROLLER OF THE TREASURY

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January 17, 2014

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
Ms. Connie Ridley, Director of Administration
Office of Legislative Administration
7th Floor, Rachel Jackson Building
320 6th Avenue North
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Office of Legislative Administration for the period July 1, 2010, through October 16, 2012.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. Management of the Office of Legislative Administration 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 Office of Legislative Administration's management in a separate letter.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/KBT/mse
13/019

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Performance Audit
Office of Legislative Administration
January 2014

AUDIT SCOPE

We have audited the Office of Legislative Administration for the period July 1, 2010, through October 16, 2012. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of management's risk assessments, expenditures, inventories, and prior audit findings.

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 Office of Legislative Administration is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

The Joint Legislative Services Committee exercises oversight over the Office of Legislative Administration. The Joint Legislative Services Committee is created and defined in Title 3, Chapter 10, of *Tennessee Code Annotated*, and the committee is composed of 10 members including the Speaker of the Senate and the Speaker of the House, who each appoint two members of the majority party and two members of the minority party from the respective houses. The Comptroller of the Treasury is elected for a two-year term in a joint vote by both houses of the Tennessee General Assembly (Tennessee State Senate and Tennessee State House of Representatives), which are headed by the Speaker of the Senate and the Speaker of the House, respectively. We do not believe that the election of the Comptroller of the Treasury by the General Assembly affected our ability to conduct an independent audit of the Office of Legislative Administration.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

AUDIT FINDINGS

Management of the Office of Legislative Administration has not fulfilled its responsibility to annually assess the office's operational and fiscal risks of noncompliance, errors, fraud, waste, and abuse

Based on our testwork and discussions with the Director, we found that management had not documented that it had performed an annual risk assessment since 2008 (page 3).

The Office of Legislative Administration has still not established adequate controls over the supplies inventory, increasing the likelihood that theft of inventory could occur and not be detected timely by management*

The office's inventory had an estimated value of $200,174.22 on October 20, 2011, but because of the inadequate controls, management could not reconcile the office's supplies inventory records to the inventory system within Edison, the state's accounting system. In addition, our inquiries revealed that the office's supply room technician had incompatible inventory duties and did not maintain adequate inventory documentation to substantiate that staff had performed a full and complete physical inventory of items on hand (page 8).

OBSERVATION

The Office of Legislative Administration still has not adopted a policy to address post-employment benefits awarded to departing employees (page 7).

* This finding is repeated from prior audits.

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INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the audit of the Office of Legislative Administration. 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 Office of Legislative Administration processes the expenditures and revenues of the General Assembly and its committees, commissions, and support agencies. Beginning January 2012, the office assumed the responsibility for payroll and accounting functions for the Fiscal Review Committee. Legislative Administration is also responsible for human resources issues and staff administration including the Legislative Intern Program.

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

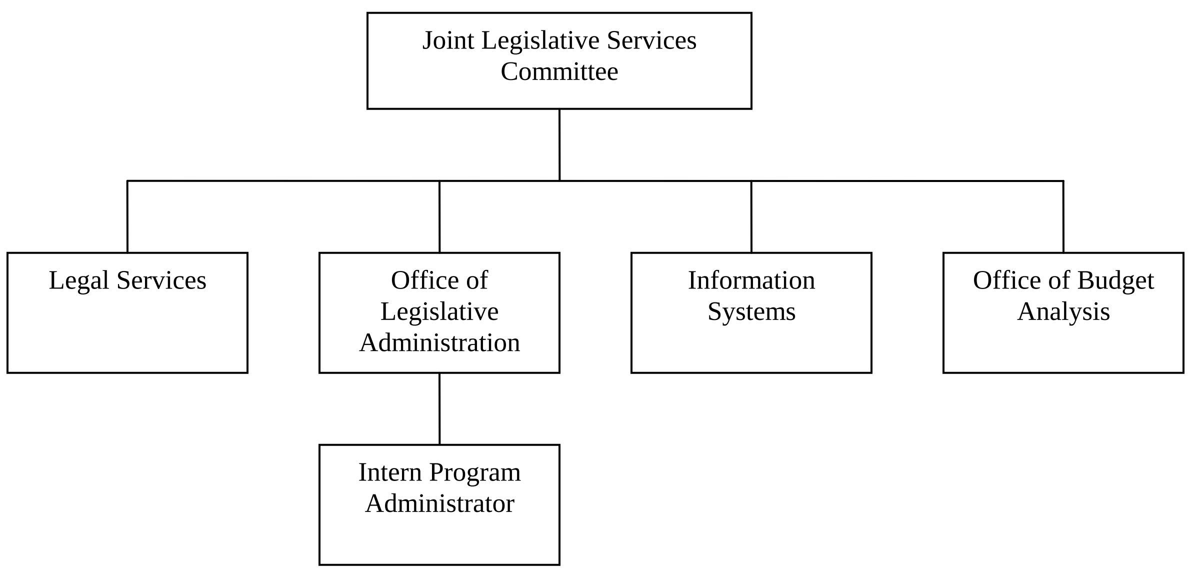
AUDIT SCOPE

We have audited the Office of Legislative Administration for the period July 1, 2010, through October 16, 2012. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of management's risk assessments, expenditures, inventories, and prior audit findings.

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 Office of Legislative Administration is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

Office of Legislative Administration
Organization Chart
September 2012



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 Office of Legislative Administration filed its report with the Department of Audit on November 4, 2011. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDINGS

The prior audit report dated May 2011 contained findings concerning inadequate controls over supplies inventory and awarding a severance package to a former employee without any policy authorizing such packages. The issues related to post-employment benefits policy are reported in an Observation on page 7. The finding on inventory has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

RISK ASSESSMENTS

The objectives of our review of risk assessments were to determine whether annual risk assessments were performed and documented by management.

We interviewed management to gain an understanding of the process used to assess risks and to determine whether management had performed an annual risk assessment. Based on our interviews and review of risk assessment documents, we determined that management had not documented that it had performed a risk assessment since 2008, as discussed in finding 1.

Finding 1 -Management of the Office of Legislative Administration has not fulfilled its responsibility to annually assess the office's operational and fiscal risks of noncompliance, errors, fraud, waste, and abuse

The Office of Legislative Administration supports the day-to-day operations of the General Assembly. Under the leadership of the Director of the Office of Legislative Administration, the office fulfills its responsibilities including processing all forms and records on members and employees of the General Assembly, maintaining personnel records in accordance with accepted personnel practices, and preparing the payroll for all members and employees of the General Assembly. To carry out the office's responsibilities, the Director and the management team must establish an adequate internal control structure to provide reasonable assurance that the office can achieve basic objectives related to its operations, financial reporting, and compliance with laws, regulations, and policies.

The Financial Integrity Act of 1983, Section 9-18-102, *Tennessee Code Annotated*, also requires that

> **(a)** Each agency of state government and institution of higher education shall establish and maintain internal controls which shall provide reasonable assurance that:
>
> **(1)** Obligations and costs are in compliance with applicable law;
>
> **(2)** Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
>
> **(3)** Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.
>
> **(b)** To document compliance with the requirements set forth in subsection (a), each agency of state government and institution of higher education shall annually perform a management assessment of risk. The internal controls discussed in subsection (a) should be incorporated into this assessment. The objectives of the annual risk assessment are to provide reasonable assurance of the following:
>
> **(1)** Accountability for meeting program objectives;
>
> **(2)** Promoting operational efficiency and effectiveness;
>
> **(3)** Improving reliability of financial statements;
>
> **(4)** Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
>
> **(5)** Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

Based on our testwork and discussions with the Director, we found that management had not documented that it had performed an annual risk assessment since 2008. We did review management's 2008 formal risk assessment and noted that the Director had subsequently added risks and mitigating internal controls as the office identified new risks worthy of documentation. The Director did not provide evidence that she and her management team had formally documented their assessment of the office's operational and fiscal risks each year since 2008. An ongoing risk assessment process is a basic tenet of internal control.

During our audit, we discussed with the Director the lack of a formal annual risk assessment process since 2008. She stated, "As for the risk assessment there is not anything additional that needs to be added to it. There have been no identifiable issues that warrant note."

The responsibility to do meaningful annual risk assessments is of paramount importance. As evidenced by the repeat findings noted in this audit, we believe management has not properly documented all of the office's risks or mitigating controls annually. Under these circumstances, it is even more imperative that management take affirmative steps to not only correct these findings but also to perform an annual overall risk assessment to identify and prevent continuing and future weaknesses in the office's operations or fiscal areas of responsibility.

Recommendation

The Director of the Office of Legislative Administration should take steps to ensure that annual risk assessments are conducted as required by law. Each assessment should be well documented, complete, and clear. The risk assessment process should involve the active participation of staff; however, management is ultimately responsible for the results of the assessment. The Director of Administration should assign specific responsibility to certain staff to see that the assessments are properly conducted and should hold staff accountable for performing this critical process.

Management should begin the process with prior audit findings, ensuring that corrective actions recommended by us have been fully implemented. Management should also think about the general types of problems that can occur, such as theft and overbillings from vendors. The relative materiality of the qualitative and quantitative risks should be considered as well. The results of the risk assessment should be used by management to design appropriate internal controls to mitigate identified risks. As such, the risks should be prioritized so that management can focus its initial attention on the greatest risks. Risks and related controls should be clearly linked.

Management's Comment

Management does not concur that it has not fulfilled its responsibility to annually assess the office's operational and fiscal functions. Documentation of an identified risk during the audit period was filed with the Office of the Comptroller.

Management does concur that adequate documentation of the remaining office functions and results of its assessment were not prepared; however, no further risks or weaknesses were identified by management.

More sufficient documentation as recommended by the audit will be prepared annually and maintained on file in the office.

EXPENDITURES

The objectives of our review of expenditures were to determine whether

- management and staff corrected the prior finding regarding the awarding of severance packages;
- management properly restricted access to the Edison accounting system;
- expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system;
- management and staff made payments for goods and services in a timely manner;
- expenditures for travel were in accordance with the Comprehensive Travel Regulations and, as applicable, Section 3-1-106, *Tennessee Code Annotated;* and
- management and staff properly approved voucher registers.

We reviewed applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the office's controls over expenditures necessary to achieving the audit objectives. We discussed severance package policy with the Director of the Office of Legislative Administration. We reviewed the Edison security files to determine which employees were recognized users and to determine whether these employees' levels of access properly related to their job duties. From a population of 34,942, we selected a nonstatistical sample of 25 expenditures totaling $13,302 of a population of $17,353,914 for the period July 1, 2010, through June 30, 2012, and examined supporting documentation to determine whether expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system and that payments were made in a timely manner. We tested the sample items related to travel for compliance with the Comprehensive Travel Regulations, and as applicable, Section 3-1-106, *Tennessee Code Annotated*. We reviewed voucher registers for the period July 1, 2010, through June 30, 2012, to determine if the registers were properly approved.

Based on our reviews, interviews, observations, and testwork, we determined that

- management and staff have not adopted a policy to address post-employment benefits awarded to departing employees (as noted in observation below);
- management properly restricted access to Edison;
- expenditure transactions were adequately supported, properly approved, and correctly recorded in the accounting system with one minor exception;
- payments for goods and services were made in a timely manner;
- expenditures for travel were in accordance with the Comprehensive Travel Regulations, and, as applicable, Section 3-1-106, *Tennessee Code Annotated;* and
- voucher registers were properly approved.

<u>Observation - The Office of Legislative Administration still has not adopted a policy to address post-employment benefits awarded to departing employees</u>

In a prior audit on the Office of Legislative Administration issued on May 19, 2011, we reported that the Joint Legislative Services Committee had provided post-employment benefits for an employee whose service was no longer needed. Our prior audit finding recommended that if the Joint legislative Services Committee believes it is in the state's best interest to provide for any post-employment benefits to which an employee is not entitled as part of regular employment, it should adopt a written policy to govern the basic aspects of these types of payouts.

Management did not concur with the prior finding but stated in the prior audit report that they "will revise the operating policies and procedures to clarify the terms of awarding future leave in this category," and in their audit follow-up report submitted to the Comptroller of the Treasury on November 1, 2011, management stated that it was "…currently reviewing a draft policy change to clarify the terms of any future leave award in this category. Upon completion of review of the draft, action will be report[ed] to the Comptroller and the Fiscal Review Committee Executive Director." Based on discussion with the Director of Administration, these policies were presented to the Joint Legislative Services Committee; however, the policies have not been approved.

INVENTORIES

The objectives of our review of inventories were to determine whether

- management corrected the prior audit finding related to the supplies inventory; and
- inventory balances in the state's accounting records could be traced to supporting documentation and reconciled to the office's records.

We reviewed applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the office's controls over inventories necessary to achieving the audit objectives. We reviewed the supplies inventory procedures and performed testwork to determine whether corrective actions, as described by management, had been taken. To determine whether inventory recorded in the state's accounting system was supported and reconciled to the office's inventory records, we attempted to substantiate the four parts of the inventory cycle—Beginning Inventory, Purchases, Sales, and Ending Inventory—for the period October 20, 2011, through June 30, 2012. In addition, we also performed test counts of nonstatistically selected sample items on the inventory listing at October 2, 2012, noting any differences between the inventory records and the quantity that we counted.

Based on our reviews, interviews, observations, and testwork, we determined that management had not taken sufficient corrective action in regard to the prior audit finding related to the supplies inventory. In addition, inventory balances in the state's accounting records could not be traced to supporting documentation and did not reconcile to the office's records, as discussed in finding 2.

Finding 2 - The Office of Legislative Administration has still not established adequate controls over the supplies inventory, increasing the likelihood that theft of inventory could occur and not be detected timely by management

Even though the last four audits have recommended that the Office of Legislative Administration establish adequate controls over the supplies inventory, management has yet to take sufficient corrective action to establish adequate controls to mitigate the risks of fraud, waste, and abuse related to inventory.

The office maintains an inventory of supplies, picture frames, and United States and Tennessee state flags for members of the legislature and their staff. The inventory had an estimated value of $200,174.22 on October 20, 2011, and because of the inadequate controls, the office's supplies inventory records could not be reconciled to the inventory system within Edison, the state's accounting system. Our inquiries revealed that the office's supply room technician had incompatible inventory duties and did not maintain adequate inventory documentation to substantiate that staff had performed a full and complete physical inventory of items on hand. According to the supply room technician, he counts inventory items and then enters them in the Edison inventory system by identification number but does not prepare and retain any documentation as evidence of his inventory counts. In addition, according to the supply room technician, he not only performed the inventory by himself during the period audited, but he was also solely responsible for receiving inventory items purchased for resale, adjusting the inventory records within the Edison inventory system, and maintaining physical custody of the inventory items.

In the prior audit, management stated:

> We concur that an independent review of the annual inventory included the services of the Supply Technician, which is found by this audit to be insufficient separation of duties.
>
> Management will provide appropriate staff to perform tasks required to accurately manage the legislative supply room. Management will also ensure complete independence in the assignment of the task of annual inventory without the services of the Supply Technician.

According to the office's policies and procedures governing the purchase of office supplies, "when supplies are delivered…the Director will confirm receipt against the e-mail sent by the supply room technician to the Property Supervisor of the items needing to be purchased. Upon confirmation of receipt of goods, the newly ordered supplies will be distributed to the supply room technician, for stocking and addition to the inventory." Based on our discussions with the supply room technician, he indicated he was unaware of the procedures cited above. We also asked the Director of the Office of Legislative Administration why the supply room technician had been allowed to perform incompatible inventory duties, which violated established office procedures. She stated, "It is his assigned job to input the inventory and because of our small staff and the fact that he is located in another building, he has to receive the supplies upon order. We don't have any administration staff in the plaza complex who could handle receipt of goods. If we have the supplies delivered to our office here in the Rachel Jackson then we have a delivery problem…." The Director did state that allowing the supply room technician to perform the inventory alone was a mistake and that she would make sure it did not happen in the future.

For the period October 20, 2011, through June 30, 2012, our testwork over the supplies inventory consisted of attempting to substantiate the four parts of the inventory cycle: Beginning Inventory, Purchases, Sales, and Ending Inventory. To substantiate the beginning inventory balance, we obtained the Beginning Inventory of $200,174.22 as recorded in the Edison inventory system as of October 20, 2011; however, because the supply room technician did not maintain adequate supporting documentation in the form of count sheets or other types of supporting documentation, we were not able to independently confirm this balance based on the office's records.

The office provided invoices in the amount of $33,280.23 to substantiate Purchases during the period tested; however, our listing of purchases on the Edison inventory from State Audit Information Systems showed purchases as $66,802.50.

For Sales, the office provided supporting documentation (releases from the supplies inventory) in the amount of $75,448.56, but our listing of sales items (releases from the supplies inventory) on the Edison inventory system from State Audit Information Systems showed sales as $97,248.44. Again, we were unable to reconcile the department's records to the Edison inventory amounts. As noted in the prior audit, the office keeps a supply log for all issuances of inventory items to individuals. The information is generic and does not include the specific identification number associated with each individual item, making it impossible to track which items are issued. Because each item is assigned a value based on the purchase date, we were unable to determine the cost of the inventory items actually dispensed to individuals. In addition, the supply room technician allowed individuals who needed inventory items to record the items they received on the log, and those individuals did not consistently provide enough information about the items obtained from the inventory on hand to clearly identify items dispensed.

Finally, the office could not provide records substantiating an Ending Inventory balance at June 30, 2012.

We also performed test counts to compare the quantity of inventory items on hand with the quantity shown on the Edison inventory listing as of October 2, 2012. We performed the testwork to determine how significant the differences in inventory balance on hand were, compared to the Edison inventory system balances. Our testwork revealed the following:

- For 7 of 25 inventory items we counted (28%), the quantity on hand based on our count did not agree with the quantity on the inventory system. The variances ranged from 1 to 11 items. In one instance, our test count indicated that the quantity was one less than the Edison records stated. For the other 6 items, our test count indicated more items on hand than were listed on the system.

If the Director of the Office of Legislative Administration does not provide appropriate staff to effectively establish control over the supply inventory, which includes proper separation of inventory duties and maintaining all inventory records, the office's risk of fraud, waste, abuse, or theft of inventory could occur and not be detected timely by management.

Recommendation

The chairs of the Joint Legislative Services Committee should instruct the Director of the Office of Legislative Administration to design and implement an internal control structure over inventory that will ensure the following:

- accurate, detailed inventory records information is maintained and reconciled to the Edison inventory system and signed off on by the Director;
- periodic physical inventory counts are performed by, or in the presence of, an employee who is independent of the supply inventory; and
- inventory issuances on the supply inventory log are only recorded by the authorized personnel.

The Director should implement the new internal control structure immediately.

Management's Comment

Management does not concur that adequate controls over inventory have not been established.

1. All invoices for Purchases on the Edison inventory of $66,802.50 are electronically filed in the Edison system and available for review. All hard copy invoices for Purchases of $66,802.50 are on file and available for viewing in the Office of Administration. The auditor did not review all vendor files. Evidence shows there are no missing invoices or missing inventory from Purchases or Sales items.

2. Individuals provide adequate information on the inventory log at the time dispensed from the supply room.

3. Inventory completed in 2013 found no discrepancies in items counted. Appropriate hand written documentation of the physical inventory has been maintained on file in the office and filed in the Edison system.

Management does concur that the Supply Room Manager was involved in completing the physical inventory during the audit period. However, this weakness has been corrected and the Supply Room Manager was not a participant in the 2013 physical inventory, nor will the Supply Room Manager participate in any future physical inventories of stock.

APPENDIX

BUSINESS UNIT CODES

Office of Legislative Administration business unit codes:

301.01 General Assembly – Legislative Administrative Services
301.07 House of Representatives
301.08 State Senate
301.13 General Assembly Committees
301.16 General Assembly Support Services
301.17 Tennessee Code Commission
301.50 Fiscal Review Committee*

*The Office of Legislative Administration began processing the Fiscal Review Committee's expenditures in January 2012.