SPECIAL REPORT

Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum

January 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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January 23, 2011

The Honorable Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Wilson:

Attached to this letter is a special report summarizing our findings related to a review this office initiated regarding the expenses of the Tennessee State Museum Foundation and other matters relating to the foundation and the Tennessee State Museum.

State Audit's detailed review was initiated in December 2009 after this division's financial and compliance auditors, auditing the Tennessee Arts Commission and Tennessee State Museum, determined Tennessee State Museum Foundation credit cards were used to pay for travel expenses of state employees of the museum. Those same state employees would then submit a state travel claim requesting reimbursement for those expenses paid by the foundation and were then expected to reimburse the foundation. Under these circumstances, improper reimbursements were possible as the state employees had not actually incurred those expenses. Additionally, with some travel claims being submitted to the foundation, duplicate reimbursements, those from the foundation and the state, were also possible. Moreover, we had additional questions regarding reimbursements to the foundation, the foundation's other expenses, and other issues which involved the museum and its employees.

We have reviewed the State Audit financial and compliance report for the museum, which was part of the Tennessee Arts Commission at that time, for the period ended May 31, 2008, and the related documents. We have also reviewed the audit of the Tennessee State Museum Foundation for the period ended June 30, 2009, and the supporting documents gathered by the foundation's external auditor. We requested and reviewed additional records at both the museum and the foundation. We also interviewed the external auditor and reviewed his working papers. Furthermore, we interviewed current employees of both the museum and the foundation.

Our review noted the following deficiencies in three areas in the operations of the state museum foundation: (1) procedures related to foundation travel expenses should be changed to

improve controls; (2) the foundation's internal controls over expenses need strengthening, and appropriate measures to safeguard expense documents were not taken after the offices were flooded in 2009; and (3) the controls over foundation receivables and year-end adjusting entries need strengthening.

Our review noted the following deficiencies in three areas in the operations of the state museum: (4) the controls over purchasing procedures of items for the state museum collection need improvement; (5) controls over state telecommunications equipment were lacking, and the museum executive director and staff improperly used state cellular telephones for personal calls and office phones for personal long-distance calls; and (6) an employee's criminal record was known or should have been known by the executive director and administrative director, but they did not ensure disclosure to the employee's supervisor or the commission, or in the employee's personnel file.

Our recommendations and management's responses are also included in this special report.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ct
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State of Tennessee

Report Highlights

Comptroller of the Treasury | Division of State Audit

Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum

January 2011

SCOPE OF THE REVIEW

Expenses of the museum and foundation were reviewed for the period July 1, 2008, to December 31, 2009. One objective of this review was to compare state travel claims paid to museum staff with travel paid to them through the foundation. Such a comparison had not been performed previously as both entities have different auditors. Because the prior state audit of the museum determined that some museum employee travel was paid with a foundation credit card, there was a risk of duplicated payments or improper benefits to state employees. Another objective was to review the foundation's other expenses for this period to determine that expenses were legitimate business expenses and were necessary for the further promotion of the museum. Other objectives of this review were to examine employee job qualifications, controls over artifacts, and the internal controls over and use of state equipment, including telecommunications equipment.

RESULTS OF THE REVIEW

This combined review of the state museum and its foundation noted deficiencies in three areas in the operations of the foundation and in three areas in the operations of the state museum.

This review determined the following deficiencies in the operations of the state museum foundation:

1. **Procedures related to foundation travel expenses should be changed to improve controls.** During the period under review, some expenses associated with state employee travel were initially paid with the foundation credit card, and then the museum employee was asked to reimburse the foundation after submitting a state travel claim. This is problematic in that the state employee had to certify on the state travel claim that he or she personally incurred related expenses, which were in fact paid by the foundation. Also, the foundation controls did not ensure that a reimbursement was received. On 2 of the 25 occurrences noted

in the review period, the reimbursement from the state employee had not been obtained ($71.89 and $70.00). After these two non-payments were identified by the auditors, the museum employees reimbursed the foundation the full amount due.

2. **The foundation's internal controls over expenses need strengthening, and appropriate measures to safeguard expense documents were not taken after the offices were flooded in 2010.** Of the 269 items in the sample of foundation expenses we tested, 99 items (37 percent) were without any supporting documentation. The failure of the foundation to safeguard its accounting documents increases the risks for fraud. Additionally, two foundation checks were issued without a signature on the check ($400.00 and $192.20), one check was signed for the check signee in the absence of the foundation check signee ($93.38), six checks were missing the required second signature ($765.00, $600.00, $777.61, $1,216.85, $510.00, and $611.90), one invoice was overpaid $40, invoices were prepared by state museum employees for foundation vendors on several occasions, and over $5,000 in foundation funds was spent on non-business items such as coffee, desserts, and small gifts.

   Additionally, from the review of controls over foundation expenses, it appears that there are two museum positions involved in the foundation operations that lack the necessary separation of duties for the remaining controls to detect and prevent potential improprieties.

   Furthermore, the foundation's office, within the state museum, experienced some flooding in 2010 caused by building plumbing. The aftermath of the flooding left the office in disarray, and documents were moved to different offices of the museum to prevent any further damages and loss. According to the foundation's management, many documents were misplaced during this process and could not be located during this review.

3. **The controls over foundation receivables and year-end adjusting entries need strengthening.** The controls over foundation receivables were not sufficient to ensure that accounts were properly recorded, accounts were properly adjusted after payments were received, and collections were made in a timely manner. Additionally, suggested year-end adjusting entries intended to correct account balances and to comply with generally accepted accounting principles were transmitted by the foundation's external auditor to the state employees overseeing the foundation's operations, but those employees failed to review the entries, make any necessary inquiries, or post the items in the foundation's accounting system.

This review determined the following deficiencies in the operations of the state museum:

4. **The controls over purchasing procedures of items for the state museum collection need improvement.** Acquisition guidelines were not followed in the $6,500 purchase of a musket in September 2008, and in the same month, a photograph purchased through an online auction for $22.99 was never received and a refund had not been promptly requested.

5. **The controls over state telecommunications equipment were lacking, and the museum executive director and staff improperly used state cellular telephones for personal calls and office phones for personal long-distance calls.** Personal calls made on the four state-issued cellular telephones and personal long-distance calls made from office phones totaled $377.72 in the six-month period reviewed. Also, telecommunications billings were not properly reviewed on an ongoing basis. After these personal calls were identified, the museum's executive director and staff reimbursed the museum the full amount due.

6. **An employee's criminal record was known or should have been known by the executive director and administrative director, but they did not ensure disclosure to the employee's supervisor or the commission, or in the employee's personnel file.** Museum management knew or should have known that this employee's felony conviction and then-current probationary status for drug possession were not properly revealed on his state application. The executive director and the administrative director retained the employee, who is also the current administrative director's son, despite subsequent felony convictions. Furthermore, the employee failed to disclose a reckless driving conviction. In this position, the employee is required to maintain a valid driver's license and required to notify management of a conviction, suspension, revocation, expiration, or invalidation of his driver's license. The employee currently has a valid driver's license.

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Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum

INTRODUCTION

BACKGROUND

The Douglas Henry State Museum Commission

The Tennessee State Museum was created in 1937 by Section 4-12-101, *Tennessee Code Annotated*, for the purpose of bringing together the administration of various collections, articles, and specimens owned by the state. The museum is currently under the supervision of, and administered by, the Douglas Henry state museum commission, which was created through Section 4-20-301, *Tennessee Code Annotated*. Previously, the state museum was part of the Tennessee Arts Commission, but as of July 1, 2009, and pursuant to Section 4-20-303, *Tennessee Code Annotated*, the functions of the museum were transferred to the Douglas Henry state museum commission.

The museum commission consists of 11 voting members, the executive director of the museum (non-voting), and the Chair of the Tennessee Arts Commission (a non-voting, one-year term). Two members were appointed by the speaker of the house, and two members were appointed by the speaker of the senate, all with two-year terms. Six members were appointed by the Governor, and one member was jointly appointed by the speaker of the senate and the speaker of the house, all with three-year terms.

Under Section 4-20-304, *Tennessee Code Annotated*, the museum commission is authorized and empowered to oversee the operations of the museum, employ an executive director and any other expert it deems necessary, promulgate rules and regulations for operation and administration of the museum, and otherwise be the sole governing authority of the state museum.

The museum's mission is to procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans. Through the acquisition of objects, and the programs which serve this objective, the museum ensures that the public has access to a complete and wide-ranging collection through exhibitions, research study, public programs, teacher workshops, publications, or other educational opportunities.

The museum offers free educational programs, organized by the museum's Public Programs Department. All school programs are developed to assist teachers in meeting requirements of the Tennessee Department of Education's Core Curriculum Guidelines. Accordingly, the museum also develops teacher workshops and in-service sessions which guide educators in using the museum as a classroom resource.

Tennessee State Museum Foundation

The Tennessee State Museum Foundation is a non-profit 501(c)(3) corporation, whose sole purpose is to support the activities and programs of the Tennessee State Museum through a statewide membership program, fundraising activities, grants management, and a retail operation (Section 4-12-111, *Tennessee Code Annotated*). Originally founded as an organization to assist the museum 30 years ago, the Tennessee State Museum Association was restructured and renamed the foundation in 1981 as the needs of the museum became more defined. The foundation board consists of 23 members throughout the state, although most members live in Middle Tennessee or the surrounding area. Eighteen members are elected for three-year staggered terms by the foundation board. Additional members include the museum executive director and the chairman of the museum committee of the Tennessee Arts Commission. One member is appointed from the senate by the Lieutenant Governor (speaker of the senate) for a two-year term. One member is appointed from the house of representatives by the speaker of the house for a two-year term. Finally, one member of the foundation's board of directors is appointed by the Governor for a four-year term.

Since 1986, the foundation's accomplishments include development of an active membership program, funding for several international art exhibitions, publication of books and exhibition catalogs, and the support of educational programs for adults and children.

The foundation is designed to be a financial asset to the museum, allowing it to accomplish many long-range and short-range goals which are not funded by the State of Tennessee. All activities of the foundation are carried out with the approval from the foundation board. Its programs include the presentation of three to four special exhibitions each year. (Examples include The Rau Collection: Six Centuries with the European Masters; To Conserve a Legacy: American Art from Historically Black Colleges and Universities; A Brush with History: Paintings from the National Portrait Gallery; Best of Tennessee Statewide Art Competition, Exhibition, and Sale; and Masterworks: Paintings from the Bridgestone Museum of Art.) Additionally, the foundation supports the development of touring exhibits which travel to other museums located in Tennessee, as well as across the United States. (Examples include Red Grooms: Selections from the Graphic Work; Preserving Our Stories: 150 Years of the Tennessee Historical Society; Hoofbeats in the Heartland: Civil War Cavalry in Tennessee; and the River Inside: Photographs by John Guider.)

The foundation underwrites on-site and off-site events which engage various groups within the statewide community. Some activities are specifically geared to groups who may not have otherwise been familiar with the museum or its activities. Such activities have included the annual Haunted Museum special event and guided tours, as well as speakers bureau presentations created specifically for the Rau Collection exhibition. The foundation also underwrites workshops for teachers at a reduced fee.

Policies and Procedures

As an agency of the executive branch of state government, the Tennessee State Museum is required to follow procedures established by the Department of Human Resources and the Department of Finance and Administration.

The foundation has its own policies over purchases which include both budget controls and preapprovals for all uses of foundation funds. Travel policies for the foundation, although not written, have historically followed state travel regulations.

Fiscal Officers and Oversight

The museum commission was established to manage the overall direction of the state museum. The museum's day-to-day operations are overseen by the executive director and two deputy directors. The administrative functions of payroll, procurement, and travel are performed by two administrative assistants, who report to the Deputy Director of Administration. Additionally, the museum contracts with Shared Services of the Tennessee Department of Finance and Administration for review and approval of travel and procurement.

The foundation's board of directors manages the overall direction of the foundation's activities. The foundation's day-to-day operations are overseen by two state museum employees: the Director of External Affairs and the Director of Public Programs. These individuals report directly to the executive director of the museum. The directors also oversee the foundation's two full-time employees: a membership manager and a shopkeeper. The foundation also contracts with two bookkeepers to enter accounting information into the accounting software on a state computer and perform monthly bank reconciliations. The two bookkeepers report to the Director of Public Programs, who reports on the foundation's financial activities in the quarterly board of directors' meetings.

Prior Audits

The museum and the foundation have been audited separately in the past. The audit of the museum has been performed by the Tennessee Department of Audit as part of the audit of the Arts Commission. The financial and compliance audit of the Tennessee Arts Commission is 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." The latest audit report was issued for the Tennessee Arts Commission (including the museum) for the period June 1, 2005, through May 31, 2008. The audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of artifacts inventory, equipment, revenue, expenditures, payroll and personnel, vehicle registration revenue, and the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

The latest audit report on the Tennessee Arts Commission (including the museum) for the period June 1, 2005, through May 31, 2008, did not contain any formal findings. However, many concerns which did not rise to the level of formal audit findings were noted and reported to museum management such as the lack of proper segregation of duties for those personnel who reconciled significant assets with accounting records and also maintained detail and control accounts. Additionally, it was noted that the foundation credit cards were sometimes used to pay for state employees' travel expenses. The foundation was then reimbursed by state employees after those employees submitted state travel claims, which certified that expenses were personally incurred rather than paid by the foundation. Management advised that they would take appropriate steps to address these issues.

The audit of the foundation has been performed by a local certified public accounting firm. As reported in the foundation's financial audit, the audit was conducted in accordance with generally accepted government auditing standards.

The audit of the foundation for the fiscal year ended June 30, 2009, did not contain any formal findings. However, the auditor noted that the foundation had chosen not to appoint a qualified individual with significant accounting skills to oversee the preparation of the financial statements in accordance with generally accepted accounting principles. The auditor reported that material adjustments to the foundation's financial statements were required as a result.

Risk Assessments

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. Hence, 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. It is management's responsibility 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 affected transactions and controls. Furthermore, since 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 and an entity's audit committee. The Douglas Henry state museum commission formed an audit committee in August 2010.

Management of the museum has established a risk assessment process for its Financial Integrity Act compliance. Management of the museum has worked with Shared Services of the Department of Finance and Administration and outlined potential risks, rated the impact and likelihood of the risks, and has established controls for each risk. Management of the museum has effectively assessed the areas of potentially significant risks and has directed that the risk assessment efforts are to be a continuous process.

Management of the foundation has not established a risk assessment process. Although not required by state statute, foundations, regardless of their size or nature, are vulnerable to fraud, waste, and abuse. And so, in all organizations, management is required by basic tenets of internal control to assess the risk of fraud in the operations of the entity.

The need for a risk assessment process was discussed with management of the foundation. The need for an audit committee was also discussed with management of the foundation.

SCOPE OF THE REVIEW

Selected activities of the museum and foundation were reviewed for the period July 1, 2008, to December 31, 2009.

One objective of this review was to compare state travel with travel paid through the foundation. Such a comparison had not been performed previously as both entities have different auditors. Because the prior state audit of the museum determined that some travel was paid with a foundation credit card, the risks of duplicated payments or improper benefits to state employees appeared high.

Another objective was to review the foundation's expenses for this period to determine that expenses were legitimate business expenses and were necessary for the further promotion of the museum.

Other objectives of this review were to examine employee job qualifications, controls over artifacts, and the use of state equipment, including the use of telecommunications equipment.

During our review, we discussed with management many areas of the museum's and foundation's operations and the internal controls over those areas. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. Methods used included

1. review of applicable legislation and policies and procedures;
2. examination of the museum's records, reports, and information summaries;
3. examination of the foundation's records and reports;
4. review of the foundation's audit report and an interview with the foundation's external auditor; and
5. interviews with department staff and staff of other state agencies that interact with the agency.

RESULTS OF THE REVIEW

This combined review of the state museum and its foundation noted three deficient areas in the operation of the foundation and three deficient areas in the operation of the state museum.

This review determined the following deficiencies in the operations of the state museum foundation:

Procedures related to foundation travel expenses should be changed to improve controls

Finding #1

During the prior audit of the museum, it was noted that expenses associated with state travel were sometimes initially paid with the foundation credit card, and then the museum employee would reimburse the foundation after submitting a state travel claim.

In order to test whether state employees were improperly benefiting from using the foundation credit card for expenses and then claiming those expenses on a state travel claim or whether any duplicate or partially duplicated claims were submitted to both the state and the foundation, all state and foundation travel claims for the period July 1, 2008, through December 31, 2009, were obtained and compared.

From the testwork performed, it was determined that the foundation spent a total of $38,786.02 on travel related items (hotels, per diems, mileage, transports) during the period reviewed. From the testwork performed, it was confirmed that expenses associated with travel were sometimes initially paid through the foundation credit card, and then the museum employee submitted a state travel claim requesting reimbursement for those expenses paid on the foundation's credit card.

The museum's management's system of using the foundation credit card to pay for expenses upfront is problematic in that the state employees are required to make incorrect representations on their state travel claims. The state employees must certify on subsequent travel claims that they personally incurred those related expenses, which in fact were paid by the foundation. In such cases, an invoice from the foundation directly to the museum would appear the proper mechanism for reimbursement.

The museum's management has used this system for years. It apparently developed, in large part, because employees did not have personal credit cards or cash to cover their travel expenses. State travel regulations recommend corporate charge cards and travel advances to aid in these types of situations.

On 25 occasions, the costs associated with travel (either hotels, meals, mileage, or rental vehicles) were first paid with the foundation credit card, and the employee subsequently

submitted a state travel claim that included those costs borne by the foundation. In 23 out of the 25 occasions involving travel, the employee reimbursed the foundation after receiving the state reimbursement.

On the two remaining items, two museum employees failed to reimburse the foundation and thus retained a reimbursement from the state to which they were not entitled.

First, from the related travel claims and interviews, it was determined that on January 5, 2009, three museum employees and an associate of Vanderbilt's Peabody Library traveled to East Tennessee for a study trip held by The Museum of Early Southern Decorative Arts (MESDA). The cost of the study trip was $70 per person to cover costs of two lunches and one dinner. The foundation's credit card was used to pay the total costs of $280 (4 times $70). All three museum employees subsequently submitted state travel claims which included per diem amounts of $97.50. Two of those employees and the library associate later reimbursed the foundation $70 each. The third employee did not make a repayment and was never invoiced for the $70 by the foundation because the contract bookkeeper failed to create an invoice. This error was not detected by management because the foundation's amounts paid on behalf of others (account 8889) was not reconciled to deposits (reimbursements) received. The third employee made a $70 reimbursement to the foundation on June 14, 2010, after we informed management of the circumstances.

Second, another museum employee traveled to Monterey, Tennessee, and a $71.89 hotel bill for the employee's stay in Overton County on October 12, 2009, was paid with a foundation credit card. The employee later received reimbursement from the state travel claim he submitted. The foundation expense was correctly recorded as a receivable, and an invoice was produced. It is unknown as to whether the employee ever received the invoice. The employee reimbursed the foundation for a total of $79.90 on April 27, 2010, after we informed management of the circumstances.

Recommendations

The Foundation Board

In regard to travel for the foundation, the foundation board should require that all travel and travel related accounting entries be reviewed by foundation management for accuracy on a monthly basis. At a minimum, a monthly reconciliation of the foundation's amounts paid on behalf of others (account 8889) to corresponding deposits should be performed. Any unreimbursed amounts should be reviewed on a timely basis to ensure that the amount was invoiced. Follow-up steps should be initiated to obtain prompt payment.

If the foundation credit card is used for travel expenses and those expenses are legitimate state costs, then the foundation should invoice the state directly for those costs. Museum employees should not submit travel claims that include such expenses.

Museum Management

In regard to state travel, the review and approval of travel claims for the state museum employees is now performed by Shared Services of the Department of Finance and Administration. This office has been made aware of the issue and in conjunction with museum management, should provide adequate assurance that only actual travel expenses of employees are reimbursed to the employees.

Museum management should review state travel regulations regarding methods to provide assistance to those employees without the means to charge their state travel in advance of reimbursement.

Foundation Board and Management's Comment

The foundation concurs with the museum management's recommended procedure for billing travel expenses. Foundation management will review travel related expenses, including subsequent reimbursements, on a periodic basis (as transactions warrant) during the fiscal year.

Museum Management's Comment

We concur with this finding. The Tennessee State Museum has implemented the following travel reimbursement procedures that should improve controls and provide an acceptable audit trail:

1) Staff traveling on state business who incur costs personally shall be reimbursed for allowable expenses per state travel regulations. To ensure that costs are allowable and truly incurred by staff, travel claims shall be reviewed on Edison by an Administrative Services Assistant 2 (ASA2). To ensure that reimbursements requested are not for costs paid through a foundation credit card, the ASA2 should monitor receipts, ensuring they do not contain the last four digits of any foundation credit card. A subsequent review and approval of travel claims will be performed by a supervisor.

2) Vendors, such as hotels, may directly bill the museum for costs incurred by the museum employee. On these occasions, the museum employee's related travel claim should be reviewed on Edison by the ASA2 to ensure that there are no reimbursements requested for any direct state paid items. A subsequent review and approval of travel claims will be performed by a supervisor.

3) Only when the methods above are not available, a Tennessee State Museum Foundation (TSMF) credit card may be used for travel costs for items such as hotels.

If travel costs are incurred by the employee other than items paid for with the TSMF credit card, including but not limited to per diems, the museum employee shall submit a state travel claim and shall be reimbursed for allowable expenses per state travel regulations. The

state travel claim shall be reviewed and approved as described above. TSMF shall seek reimbursement for all allowable expenses through invoices to the museum with appropriate documentation including Travel Authorization (TA) and expense report Edison ID numbers as references. In addition, invoices from TSMF to the museum will be scrutinized with the applicable museum employee's state travel claim by an ASA2 for added detection control. Any discrepancies will be resolved immediately by the ASA2 and supervisor.

The foundation's internal controls over expenses need strengthening, and appropriate measures to safeguard expense documents were not taken after the offices were flooded in 2010

Finding #2

The foundation uses both checks and credit cards to pay for its expenses.

Testwork was performed on the foundation's expenses paid by either checks or credit cards totaling $748,831.96 for the period July 1, 2008, through December 31, 2009. Those expenses paid by credit card (and included in the total) were $116,473.78 for the same period. The testwork was performed on a sample basis, covered expenses during three different months out of this period, and totaled 269 items.

Out of the 269 expense items in our sample, 99 (37 percent) of the items were lacking the supporting documentation (receipts and/or invoices). The failure of the foundation to safeguard its accounting documents increases the risks for fraud.

The foundation's office, within the state museum, experienced some flooding in early 2010 caused by building plumbing. The aftermath of the flooding left the office in disarray, and documents were moved to different offices of the museum to prevent any further damages and loss. According to the foundation's management, many documents were misplaced during this process and could not be located during this review.

After the respective accounting entries and credit card and bank statements were reviewed, it appears that the transactions without supporting documentation were consistent with the payees, amounts, and purposes of those in prior or subsequent months. For example, the majority of expenses lacking supporting documentation included lunches for teachers' workshops, inventory purchases, and art supplies for exhibits. Moreover, the individuals involved with signing and approving the checks and credit card transactions were interviewed, and no indications of any improprieties were noted.

The testwork on the remaining 170 expense items (269 less the 99 without documentation) revealed that controls over expenses needed strengthening in the following areas:

- Foundation checks issued did not always include the signature of the signatory. On two occasions, checks were issued without a signature on the check ($400.00 and $192.20).

- On one occasion, in the absence of the museum's Director of External Affairs and at the director's request, the museum's administrative director signed the Director of External Affairs' name on the check ($93.38). There were no indications on the check to disclose that the signature was actually signed by someone else, but the signature for the Director of External Affairs was significantly different than the signatures on the other foundation checks. When asked about the signature, the administrative director stated that the museum employee urgently needed the reimbursement check from the foundation.

- Six foundation checks were missing the required second signature of a foundation board officer for those checks written for over $500 ($765.00, $600.00, $777.61, $1,216.85, $510.00, and $611.90).

- One invoice was overpaid by $40 when compared with the invoice.

- Over $600 in foundation monies was spent from the executive director's discretionary funds and over $5,000 spent from general funds on what could be considered non-business items. During the 18-month period, foundation monies were spent on cakes, desserts, coffee, breakfast items, flowers, and small gifts for foundation and museum employees, according to receipts.

- Several invoices to the foundation were prepared by state museum employees on behalf of some vendors. Although monies appeared to be due the vendors, the invoices are, in fact, not original invoices from the vendor. Only original invoices from vendors should be used with payment requests to initiate a payment.

According to foundation policies, foundation checks are issued by one of the two contract bookkeepers working part-time for the foundation except on those occasions that a vendor or payee requires immediate payment. One of the contract bookkeepers issues foundation checks twice each month. If a check must be issued immediately and on dates other than these two dates, a bookkeeper makes a special trip to the foundation office and issues the check, or the museum's administrative director, with access to the foundation's accounting system, issues the check. The supporting documentation (receipts, invoices, and check request) is to be submitted for approval prior to the issuance of checks or immediately afterward for those occasions when an immediate payment is necessary.

Foundation Credit Cards

The foundation has one credit card account. There are five individuals who have a foundation credit card issued in their name from this account. Three of the five individuals are museum employees and two are foundation employees. The credit account as a whole has a $30,000 revolving credit limit.

The foundation's policies provide for the directors and the museum retail shopkeeper to use the foundation credit cards as needed for business purposes. After each purchase, cardholders prepare a payment request form, attach the receipt, and submit to the bookkeepers to record the transactions. The payment request form and receipt are then attached to the credit card statement when the statement arrives through the mail, and those documents are then given to the museum's Director of Public Programs. That director reviews the transaction for appropriateness and accuracy and then signs the payment request if approved. The Director of Public Programs then gives the payment request form and receipt to the contract bookkeepers to enter in the foundation's accounting software.

Lack of Separation of Duties

From the review of controls over foundation expenses, it appears that there are two museum positions involved in the foundation operations that lack the necessary separation of duties for the remaining controls to detect and prevent potential improprieties. The two positions that are lacking in the separation of duties are the museum's Deputy Director of Administration and the museum's Director of Public Programs. The museum's administrative director has too much access, mainly to both the checks and the accounting system. The museum's Director of Public Programs approves all foundation credit card expenses, including her own purchases.

The foundation has many controls over expenses that were designed to mitigate the risks of improprieties. However, these controls do not appear to adequately compensate for the lack of separation of duties performed by the museum's administrative director and Director of Public Programs. The controls over foundation expenses include:

1. Director of Public Programs approves payment requests before a foundation check is issued.
2. Director of External Affairs signs checks.
3. Contract bookkeepers match payment requests with receipts and post items to accounting records.
4. Contract bookkeepers also perform bank reconciliations that confirm check amounts and total expenses.
5. Expense items in budgets are monitored by the Director of Public Programs and the Director of External Affairs.

Currently, the museum's administrative director has access to the checks, which could possibly circumvent items 1 and 2 above. This director also has access to the accounting records, which could possibly circumvent item 3 above. As far as item 4 is concerned, the bank reconciliations would not detect a check written to someone other than the "payee" posted to the accounting records as only check numbers and amounts are reconciled. Control 5 above might detect a large number of improprieties, but only if expenses were recorded under the same budget line items.

Furthermore, the Director of Public Programs reviews and approves all foundation credit card purchases, yet the Director of Public Programs is also a credit card holder with the largest credit limit, which is $10,000. The other card holders have a $5,000 limit. Preferably, a third party who is not a card holder should be the reviewer of credit card transactions to ensure that there is a sufficient segregation of duties relating to credit card use and review. The Director of Public Programs also directs some of the work of the contract bookkeepers, which would enable the Director of Public Programs to direct changes to accounting records. Therefore, this also appears to be a lack of separation of duties.

Because of the weaknesses described above, specific fraud indicators were searched for during the review of foundation expenses. During this review, we determined that all payees from foundation checks matched those listed as the payees in the accounting records. Additionally, we observed both the front and back of foundation checks and did not find any cases whereby the check was countersigned or negotiated by any museum official. The review of expenses did not reveal any fraudulent activity. The specific fraud indicators included

- mortgage, rent, or lease payments;
- car payments;
- utility payments;
- personal vacations and travel;
- purchases of personal items such as jewelry;
- checks issued to "cash"; and
- cash withdrawals.

Other Issues

It also appears that the foundation bylaws need to be revised concerning the signatory on the foundation checks because they do not explicitly state that someone other than a board officer is authorized to perform the signatory duties. On December 6, 2004, according to the minutes, the foundation board approved by vote the Director of External Affairs as the signatory of foundation checks for $500 or less but did not revise their bylaws to reflect this change.

Furthermore, the foundation's current accounting system is organized so that expenses are charged to either a general expense account or restricted/designated accounts for events, exhibits, and other activities. The full foundation board is only given detailed expense reports charged against the general expense accounts. The foundation board executive committee only receives the ending balances remaining in each restricted/designated account, without details breaking down expenses for each restricted/designated account. The foundation board may need more detailed expenses for restricted/designated accounts, to make informed decisions. For instance, the expenses for general account travel reported for the foundation for the period July 1, 2009, through November 30, 2009, were $281.82. However, the total travel for that period was actually $9,361.58, including all travel associated with the general account and all restricted/designated accounts.

As part of this review, the total checks and total credit card expenses for the 18-month period July 1, 2008, through December 31, 2009, totaling $748,831.96 were divided into various categories. The exhibits below show the separate category totals and percentages of expenses paid by check and by credit card, each with a summary pie chart. Additionally, foundation management's explanations for the various expense categories are included in the exhibits.

The total expenses for the foundation for the period were $903,426.06. This total includes checks and credit card expenses ($748,831.96) and the automatic payments from the foundation checking account for payroll, employee benefits, and merchant and bank fees totaling $154,594.10 during the same period.

Exhibit 1

Schedule of Foundation Checks Written for the Period July 1, 2008, Through December 31, 2009

Category	Amount	%
Credit Card Payments	$116,473.78	15.6%
Artifacts	$114,166.95	15.2%
Marketing	$93,222.49	12.4%
Payments to Individuals for Goods/Services	$75,058.99	10.0%
Inventory	$66,041.01	8.8%
Computer and Communication Services	$65,781.57	8.8%
Restaurants/Catering	$55,330.32	7.4%
Exhibit Supplies	$48,708.11	6.5%
Groceries for Events	$41,561.78	5.6%
Office Supplies	$26,707.97	3.6%
Employee Payments	$17,140.12	2.3%
Flowers/Gifts	$13,355.60	1.8%
Travel	$10,069.91	1.3%
Coffee	$5,213.36	0.7%
Total	**$748,831.96**	**100%**

Exhibit 2

Pie Chart of Foundation Checks Written by Category for the Period July 1, 2008, Through December 31, 2009

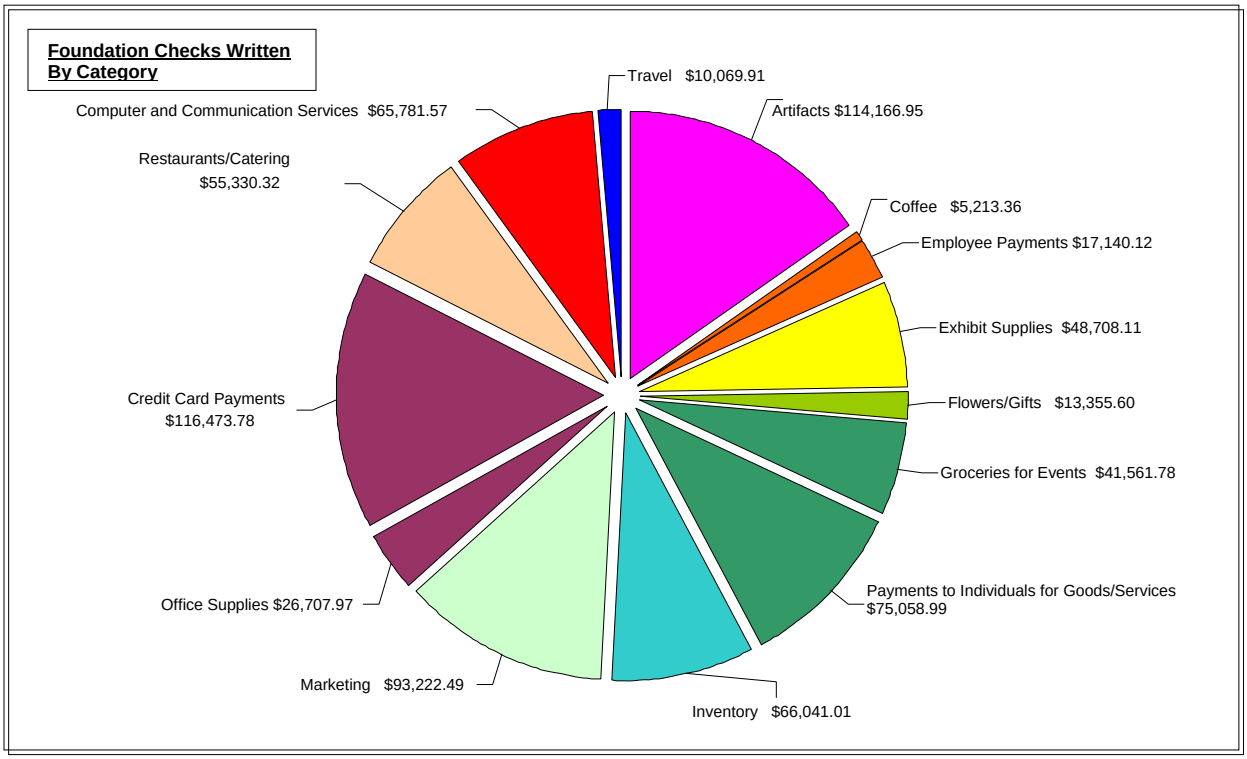


Exhibit 3

Schedule of Foundation Credit Card Charges for the Period July 1, 2008, Through December 31, 2009

Category	Amount	%
Travel	$23,868.09	20.5%
Inventory	$18,734.40	16.1%
Office Supplies	$18,211.67	15.6%
Marketing	$11,399.71	9.8%
Artifacts	$10,325.28	8.9%
Retail/Discount Stores	$9,215.19	7.9%
Restaurants/Catering	$8,457.52	7.3%
Exhibit Supplies	$8,212.75	7.0%
Computer and Communication Services	$2,334.41	2.0%
Groceries for Events	$2,253.41	1.9%
Cakes	$1,669.96	1.4%
Flowers/Gifts	$1,047.69	0.9%
Formal Wear	$607.00	0.5%
Coffee	$136.70	0.1%
Total	**$116,473.78**	**100.0%**

Exhibit 4

Pie Chart of Foundation Credit Card Expenses by Category for the Period July 1, 2008, Through December 31, 2009

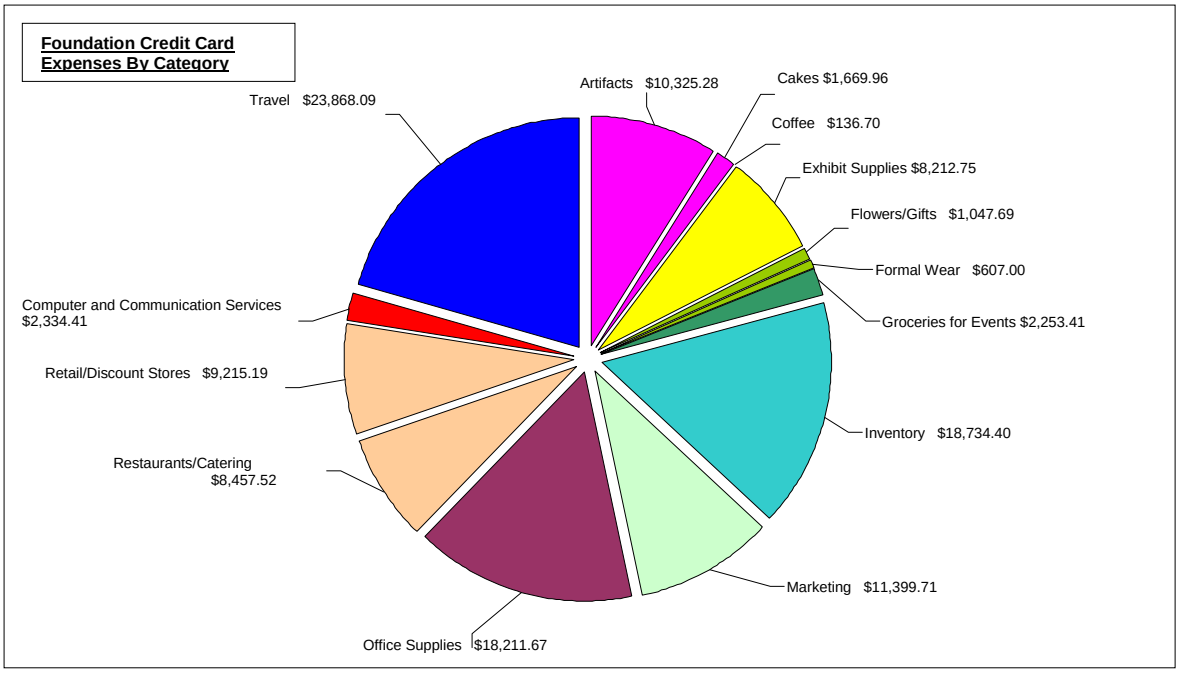


Exhibit 5

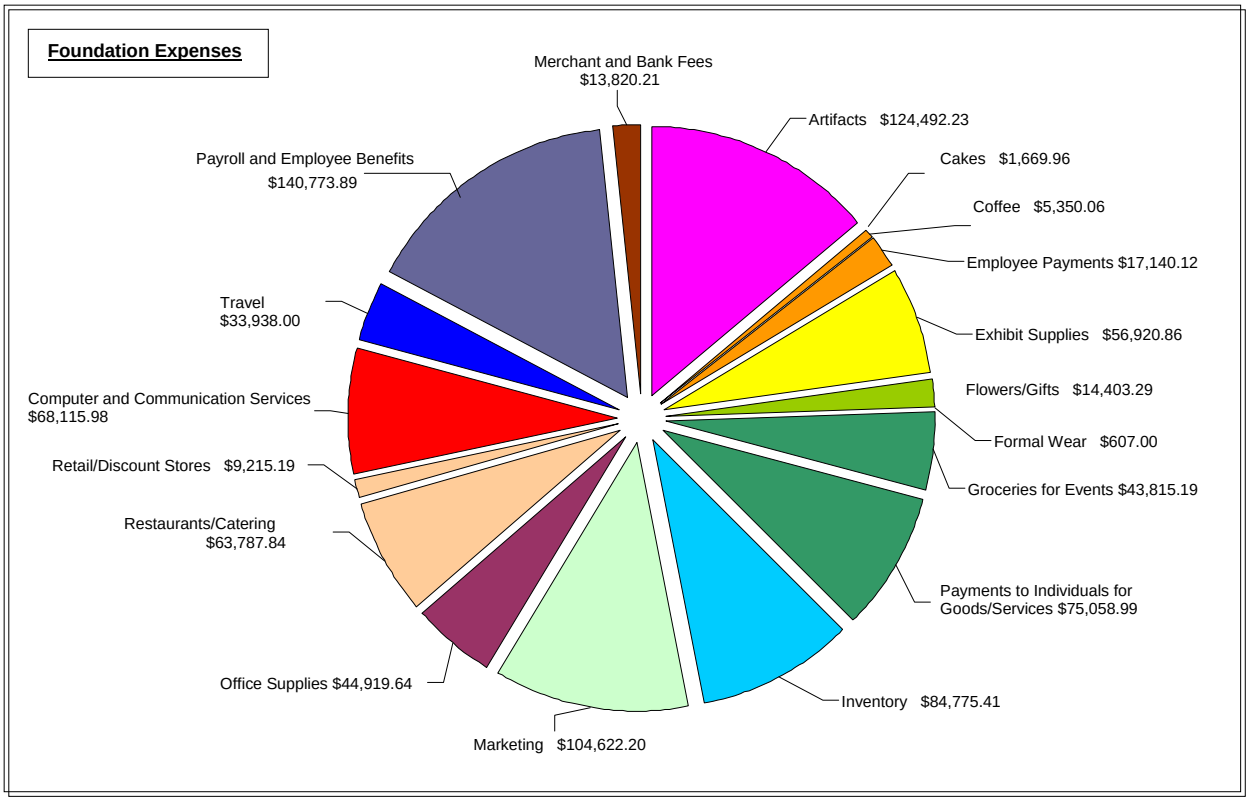
Schedule of Total Foundation Expenses for the Period July 1, 2008, Through December 31, 2009

Category	Amount	%
Payroll and Employee Benefits	$140,773.89	15.6%
Artifacts	$124,492.23	13.8%
Marketing	$104,622.20	11.6%
Inventory	$84,775.41	9.4%
Payments to Individuals for Goods/Services	$75,058.99	8.3%
Computer and Communication Services	$68,115.98	7.5%
Restaurants/Catering	$63,787.84	7.1%
Exhibit Supplies	$56,920.86	6.3%
Office Supplies	$44,919.64	5.0%
Groceries for Events	$43,815.19	4.8%
Travel*	$33,938.00	3.8%
Employee Payments	$17,140.12	1.9%
Flowers/Gifts	$14,403.29	1.6%
Merchant and Bank Fees	$13,820.21	1.5%
Retail/Discount Stores	$9,215.19	1.0%
Coffee	$5,350.06	0.6%
Cakes	$1,669.96	0.2%
Formal Wear	$607.00	0.1%
Total	**$903,426.06**	**100.0%**

*Total travel paid by the foundation for the period July 1, 2008, through December 31, 2009, was $38,786.02. However, the total travel from the checks and credit card categories is only $33,938.00 because fuel, per diems, and mileage payments of $4,848.02 to employees are shown under the employee payment category.

Exhibit 6

Pie Chart of Total Foundation Expenses for the Period July 1, 2008, Through December 31, 2009



Foundation Management's Explanations for Expense Categories

1. Restaurants/Catering - Foundation management stated that legitimate business activities of the foundation included lunches and dinners for contributors, artifact donors and sellers, and guests of the museum. The business activities also included catering services for fundraising events and community relations events.

2. Groceries for Events - Foundation management stated that legitimate business activities of the foundation included snacks, deli items, drinks, fruits, veggie trays, and cookies for teacher workshops, public events, and staff meetings.

3. Travel - Foundation management stated that legitimate business activities of the foundation included airline tickets, lodging, gas, and meals in conjunction with museum exhibits, teaching exhibits, fund-raising activities, and prospective exhibit tours.

4. Exhibit Supplies - Foundation management stated that legitimate business activities of the foundation included purchases of lumber, paint, wire, and an assortment of hardware items for the preparation of exhibits.

5. Office Supplies - Foundation management stated that legitimate business activities of the foundation included supplies for its office.

6. Inventory - Foundation management stated that legitimate business activities of the foundation included numerous knickknacks, jewelry, and accessories for resale in the museum shop.

7. Artifacts - Foundation management stated that legitimate business activities of the foundation included purchases of clothing, photographs, maps, weapons, music, pottery, artwork, and popular cultural items for the state museum collection.

8. Computer and Communication Services - Foundation management stated that legitimate business activities of the foundation included web design and support, wireless cards, internet, and cellular phone services.

9. Marketing - Foundation management stated that legitimate business activities of the foundation included the design costs of newsletters and mass mailings regarding various exhibits and events.

10. Formal Wear - Foundation management stated that legitimate business activities of the foundation included rentals of formal wear for special events.

11. Retail Stores/Discount Stores - Foundation management stated that legitimate business activities of the foundation included purchases of office equipment, props and materials for exhibits, and items for special events including items to be auctioned, wrapping paper, and baskets.

12. Cakes - Foundation management stated that foundation monies budgeted for the director's discretionary fund were occasionally used to purchase cakes and desserts for museum staff.

13. Coffee - Foundation management stated that foundation monies budgeted for the director's discretionary funds were occasionally used to purchase coffee and breakfast items for museum staff. Coffee was served at staff meetings and events. Furthermore, a bimonthly coffee service is also paid from foundation general funds for museum staff.

14. Flowers/Gifts - Foundation management stated that foundation monies budgeted for the director's discretionary fund were occasionally used to purchase flowers and small gifts for museum staff.

15. Payments to Individuals for Goods/Services - Foundation management stated that these payments were made directly to individuals for artifacts, security services for events, consultants, graphic design, and scholar fees for exhibitions.

16. Employee Payments - Foundation management stated that these payments included travel per diems and reimbursements for mileage to employees.

17. Credit Card Payments - Foundation management stated that these payments were the monthly payments to the credit card company for business expenses incurred during the period.

18. Payroll and Employee Benefits - Foundation management stated that these payments included foundation employee salaries, insurance, and other employee benefits.

Recommendations

The foundation board and management (who are state museum employees) should discuss the risks of future flooding and other disasters and develop a plan to secure all foundation documents in such circumstances. The security of the foundation's IT records and general business continuation plans should also be discussed.

The foundation board and management should review the overall expense functions and strengthen controls to ensure that all payment requests are properly approved in advance, reviewed, and matched to original invoices and receipts and that all corresponding foundation checks are properly authorized with the appropriate signature(s).

Given the frequency of expenses for coffee, cakes, and flowers, the foundation board might consider reviewing the items paid from the executive director's discretionary funds on a quarterly basis or set limits for such expenses.

The foundation board and management should take prompt action to separate inconsistent duties as noted in this finding.

The foundation board and management should consider the risks involved with a state museum employee having a foundation credit card, directing the work of the contract bookkeepers, and reviewing and approving all other expenses.

The foundation's board and management should review the expense categories developed in this review and compare them with the information developed from the foundation's current accounting system and reported to the board. The foundation board and management should consider the value of this information and whether changes to the current accounting system are necessary.

In general, management should assess risks, in writing, and develop mitigating internal controls, which should be documented and should be directly linked to the related risk. This

should include separating inconsistent functions, as noted in the finding. Then the board should review all of this and formalize its review and approval in board minutes. Foundation management should put steps into place to ensure this process is ongoing.

Foundation Board and Management's Comment

The foundation's board has approved the establishment of a director's discretionary fund to be used at the discretion of the museum director to support the ongoing activities of the museum.

The foundation board will address the recommendations included in the examination report and consider changes in accounting policies and controls in order to eliminate material weaknesses in internal accounting controls.

Museum management will review and approve all credit card expenses, excluding their own account. In addition, museum management will consult with the foundation's accounting consultant regarding any changes to the foundation general ledger accounts, and assess potential control risks and present suggested changes to the foundation board for approval.

The foundation board, its accounting consultant, and museum management team will discuss possible improvements in the security and record retention of the foundation's electronic and paper records.

Museum Management's Comment

We concur with this finding. Museum management will review current expense account categories with the foundation's accounting consultant to assure the foundation board has all information required to make informed decisions. It is important to note, with the exception of general operating funds, almost all activities of the foundation are project driven. As a non-profit, 501(c) 3, the TSMF must track donor restricted fund expenses in separate project accounts. Taking similar expenses, such as travel, from different accounts, and putting them together in one account makes this much more difficult.

The director's discretionary account was expressly established by the foundation board to fund items as designated by the museum director. Funds in this category do not include any general donations made by the public to the foundation. Donations must be made specifically to this account.

With few exceptions, the expenditures on food, flowers, gifts and other similar items were for teacher workshops, special events, museum patrons, and major donors to the museum. Gifts purchased for museum employees for occasions such as for wedding, retirement, or funerals, are primarily funded through monies collected from fellow museum staff members. To make gift purchasing easier, the museum management deposits the collected funds in the director's discretionary account so that a credit card can be used to purchase the gift item.

The museum management agrees that security issues with the foundation's computer and paper records should be discussed and procedures developed for better security. Greater efforts will be made to ensure that payment requests are approved in advance, matched to original invoices and receipts, and that foundation checks have the proper signatures. The flood did create a uniquely challenging situation during this audit period.

Controls over foundation receivables and year-end adjusting entries need strengthening

Finding #3

The controls over foundation receivables were not sufficient to ensure that accounts were properly recorded, accounts were properly adjusted after reimbursements were received, and collections were made in a timely manner.

Additionally, the foundation's management did not ensure that year-end adjusting entries for the fiscal years ending June 30, 2008, and June 30, 2009, were made. Once the suggested year-end adjusting entries were transmitted by the foundation's external auditor, the state employees overseeing the foundation's operations failed to review the entries, make any necessary inquiries, or post the items in the foundation's accounting system. As a result, the foundation's accounting records were not adjusted to properly comply with generally accepted accounting principles. The year-end adjusting entries for June 30, 2009, had also not been properly made at time of this review.

A review of the foundation receivables at the calendar year-end (2009) determined that only two of the six receivables were actually due from state employees, leaving four of the foundation receivables from state employees invalid. One of the four invalid employee receivables should have been reimbursed by the state but was incorrectly coded to an employee. Two of the four invalid employee receivables had been reimbursed already, but the employee payments were incorrectly recorded (not coded against the employee receivables). The fourth invalid employee receivable was not a receivable and should have been shown as a foundation expense.

One of the two confirmed foundation receivables was due from the executive director and was at least one and one-half years outstanding. A foundation credit card was used to purchase the executive director's spouse a special event ticket for a conference that took place before June 2008. According to the executive director, she did not recall receiving an invoice and had forgotten that the $140 was still outstanding. The executive director wrote a check for $140 to the foundation on April 19, 2010.

The remaining foundation receivable was due from a museum curator for a hotel room that was paid with a foundation credit card. The curator stated that he did not recall owing the foundation, but after reviewing the hotel receipt, he agreed that he owed $79.90, and he reimbursed the foundation on April 27, 2010.

Currently, the foundation's receivables are overseen by the museum's Director of Public Programs rather than a foundation employee. Besides the responsibilities of her state position, the director also approves all expenses of the foundation and is responsible for directing the work of the two part-time contract bookkeepers who only enter the information that is supplied from payment requests from museum employees. The director does not have an accounting background, but the oversight of the foundation's finances has become her additional duty because she understands the accounting system and she can explain the accounting reports to the foundation board of directors. The bookkeepers perform bank reconciliations monthly and are responsible for entering data in a timely manner. However, the bookkeepers are not responsible for reviewing recorded accounting transactions for items such as proper adjusting entries or timely collections of foundation receivables, nor do they ensure that invoices from the foundation regarding receivables are prepared and mailed. Furthermore, the bookkeepers are also not responsible for the review of outstanding year-end receivables. Those responsibilities have been left to the director, who already has a full-time position with the state. The lax controls have resulted in invalid receivables and lax collections for the foundation.

Furthermore, the foundation's external auditor performed audits of the foundation for the fiscal years ended June 30, 2008, and June 30, 2009. As a result of those two audits, proposed adjustments to the accounting records were recommended in order to correct errors and to comply with generally accepted accounting principles. To date, the foundation's management has not completed the adjusting entries recommended from the two audits.

As noted in the external auditor's report for the year ended June 30, 2009, on compliance and on internal controls over financial reporting, the foundation has chosen not to appoint a qualified individual with significant accounting skills to oversee the preparation of the financial statements in accordance with generally accepted accounting principles.

As a result, material adjustments to the financial statements were required, according to the external auditor's report. These adjustments involved reversing prior-year accruals such as accrued interest receivable and accruals for year-end payables. Immaterial adjustments to inventory to detailed inventory counts were also recommended. Furthermore, it appears that the foundation's management does not have sufficient time or significant accounting knowledge to complete the recommended adjusting year-end entries as those entries have not been completed to date. Without the recommended adjusting entries, the foundation's accounting records lack completeness.

After the fieldwork of this review, the foundation board of directors engaged the services of a certified public accountant, separate from the external auditor, to provide additional oversight for the foundation, including the monitoring of receivables and posting of year-end adjustments.

Recommendation

The foundation's management and board of directors should, in consultation with the certified public accountant, develop written policies and procedures for both accounts receivable and year-end adjusting entries. Furthermore, the board of directors should ensure that the recommended adjustments to the foundation's accounting records be completed promptly.

Foundation Board and Management's Comment

The board concurs with the recommendation and has already accomplished the task.

Museum Management's Comment

We concur with this finding. The museum management team recommended at the foundation board's April 2010 meeting that an independent CPA be engaged to oversee accounting functions for the foundation. Foundation board members interviewed potential candidates and recommended Mr. Daryl Smith at the July 2010 board meeting. Board members then voted to confirm Mr. Smith, who accepted the position.

This review determined the following deficiencies in the operations of the state museum:

Controls over purchases of items for the state museum collection need improvement

Finding #4

Artifacts and collectibles are purchased initially by the foundation and then transferred to the state. The items are either donated to the state, or more often, the state reimburses the foundation. According to the museum management, items are procured in this manner because they are often purchased from online auction sites and state-issued credit cards are restricted from such activities. Museum management also stated that the procurement of items is often from individuals who are not registered vendors with the state and cannot be processed through the state payment system. Therefore, museum staff have used the foundation's credit cards to acquire items for the state museum collection. For purchases to be reimbursed by the state, a foundation invoice is prepared and issued to the state. A gift agreement is prepared for those items donated to the state.

Two samples of items purchased for the state museum collection were tested. One sample included high-dollar items purchased from vendors and individual collectors. The second sample included both high- and low-dollar items purchased from online auctions.

From the testwork performed, the internal controls over purchases of items for the state museum collection need improvement.

The acquisition guidelines of the Tennessee State Museum were not followed in the procurement of one item out of 20 high-dollar items purchased (5%). A former curator purchased one British Brown Bess Musket in September 2008 for $6,500 with foundation funds. Because the item was over $999, it required the approval of a committee of at least three members (curators). However, the seller apparently demanded immediate payment and the musket was purchased before authentication documents were obtained and before a committee could approve it. Committee approval was never obtained for the musket purchase. Because the item was never authenticated as having been part of the Indian Removal (Trail of Tears), the foundation did not seek reimbursement from the state and the item was donated to the state collection.

Additionally, one of the 20 items tested from online purchases (5%) was never received by the foundation or state museum, although it was paid for with a foundation credit card. A museum curator purchased a photograph of DeAngelo Williams (now a professional running back from the University of Memphis) online for $22.99 in September 2008. This item was never received by the museum, and the curator did not follow up to ensure the item was actually received or that a refund was obtained from the seller. The foundation received reimbursement from the state for this item. A refund to the state from the seller appears unlikely as the seller is no longer associated with the online auction.

Another internal control concern was that the state museum staff purchase various props and items for numerous exhibits, traveling educational presentations, special projects, and the museum library. Currently, numerous museum staff members are procuring and maintaining these items. Although these items are not procured for the state museum collection initially, after they are displayed or used in a special project, the items are evaluated and often chosen by curators to be included in the state museum collection. Currently, the state museum does not have proper inventory controls to ensure that these supplemental items are properly accounted for after their initial use. Without a central custodian or a system of immediately recording items onto a supplemental inventory listing, the state museum management cannot be assured that all items will remain with the museum and be properly evaluated for the state museum collection.

Furthermore, as noted in the prior audit, there appears to be a lack of proper segregation of duties because those personnel who reconciled significant assets with accounting records also maintained the detail and control accounts for those assets. Proper internal controls would mandate that personnel independent of those maintaining detail and control accounts for the museum collection reconcile significant assets with accounting records.

Recommendation

Museum management should ensure that notifications are sent to the registrar when successful bids on items have been made from online auctions. The registrar should immediately assign a catalog number to the newly purchased item, and that item should remain in a pending file until it is received, inspected, and secured in the state museum collection. Museum management should ensure that curators, responsible for the purchasing of artifacts, promptly

follow through with any seller regarding items from online auctions that have been paid for but not received.

With regard to the numerous supplemental items purchased, museum management should consider assigning the role of a central custodian for the supplemental items to the registrar. The registrar should maintain a supplemental inventory listing of the various items purchased for activities outside of the museum's collection and their location. Periodic reviews of the inventory listing by the registrar might facilitate the transfer of items to the state museum collection.

Museum management should also assign the task of reconciling significant assets with accounting records to employees independent of those responsible for maintaining the detail and control accounts for the museum collection.

Museum Management's Comment

We concur with this finding. Museum management will make greater efforts to ensure that notifications are immediately sent to the registrar when successful bids on items have been made from online auctions. Immediate notification will allow the Registrar to assign a catalog number to the newly purchased item and establish a pending file until the object is received. Curators requesting the purchase will have the responsibility of Registrar notification as well as follow through with any seller regarding items not received.

Museum management agrees to establish an inventory of supplemental items outside the museum's collection which will include exhibit cases, pedestals, mannequins, stanchions, metals stands, easels, stacking chairs, and tables. Items in this category will be periodically reviewed by a museum preparator to verify number and location. Other purchases such as books, audio/video media, and other exhibition research materials will be placed in the museum's library.

Museum Commission's Comment

The Douglas Henry State Museum Commission (DHSMC) is committed to overseeing and maintaining the highest standards in the way that the Tennessee State Museum (TSM) conducts its fiscal management and operations. Throughout its history as an agency of the State of Tennessee, the TSM has demonstrated its ability to adhere to the financial procedures and respond to any changes established and/or recommended by the Comptroller of the State. Furthermore, the DHSMC and the TSM recognize that the institution must reflect sound fiscal operations and transparent reporting practices which are in the best interest of the public trust. Accordingly, the DHSMC has read and approved the TSM audit and the museum's plan for corrective action.

The controls over state telecommunications equipment were lacking, and the museum executive director and staff improperly used state cellular telephones for personal calls and office phones for personal long-distance calls

Finding #5

In addition to the state office phones, the museum also has four state-issued cellular telephones used by the museum executive director and staff for the purposes of coordinating outside events, security over the museum, and emergencies. A review of the telecommunications monthly charges confirmed that museum staff made personal long-distance phone calls from office phones and personal local and long-distance cellular phone calls. The personal natures of the calls were verified by museum staff.

Additionally, this review also determined that the monthly telecommunications billings were not being reviewed by management and the museum was paying for services that it was not using.

The Department of Finance and Administration's Policy 17 states:

> Long distance calls and cellular service airtime on state phones are for conducting state business only and should not be used for personal calls. Any long distance calls or cellular airtime of a personal nature should be conducted on the employee's time using the employee's personal telephone, calling card or other appropriate means. State issued cellular phones are to be used only for State of Tennessee business, regardless of whether the telephone calls are local or long distance.

The executive director and staff were asked to review the telecommunications charges for the period July 1, 2009, through December 31, 2009, and identify any personal calls involving the state cellular phones and any personal long-distance calls made from the office phones. The executive director identified $7.83 in charges from her state-issued cellular phone for personal calls. The administrative director identified $296.28 in personal calls from her state-issued cellular phone and personal long-distance phone charges from her office phone (under one dollar) during the period. An administrative assistant identified $71.82 in similar calls, and a curator identified $1.79 in charges from personal calls on a state cellular phone. The majority of the charges totaling $377.72 were made on state-issued cellular phones rather than the state office phones and occurred both in and out of state working hours.

The time spent on the museum staff's personal calls during state working hours was not material. The majority of the personal calls from cellular phones were only several minutes in duration.

Museum staff reimbursed the state for the personal calls in full, and $377.72 was deposited into the state's general fund on April 19, 2010.

Monthly reviews had been performed several years ago but were not properly reassigned to current staff after personnel left employment with the museum.

It was also determined that monthly charges of $11.19 to the museum included a push-to-talk feature that was not being used by the administrative director. This feature has since been removed.

Recommendation

Management has collected the amounts owed for the various employees' personal calls. Management should remind staff of the Department of Finance and Administration policy on state phone use. On a monthly basis, management should review phone charges and take any necessary actions to prevent personal usage of state-issued cellular phones and long-distance personal calls or abuse of the office phones. Management should not permit staff to use state phones for unauthorized personal calls and then allow reimbursements. Continued misuse of state phones should result in appropriate actions to ensure that staff discontinue the practice. Furthermore, management should also review the monthly listings for any additional charges for telecommunications services to ensure that the museum is not paying for extra services it does not use or need.

Museum Management's Comment

We concur with this finding. The museum management acknowledges that telecommunications reports were not reviewed during the audit period. Procedures are now in place which require monthly reviews by an ASA2 to assure accuracy in billing as well as compliance with acceptable use policies.

Museum Commission's Comment

The DHSMC concurs with the finding and approves the museum's plan for corrective action.

An employee's criminal record was known or should have been known by the executive director and administrative director, but they did not ensure disclosure to the employee's supervisor or the commission, or in the employee's personnel file

Finding #6

The museum's executive director hired the son of the museum's administrative director, then the executive director's assistant, in August 2005 for an open Museum Preparator position although she knew or should have known about his prior felony conviction for drug possession in 1998. The felony conviction did not preclude the administrative director's son from this

position. However, the executive director accepted the administrative director's son's application in which he certified that he had no felony conviction and was not currently on probation for any felony. The executive director knew or should have known that this prior conviction and then current probationary status was not properly revealed by the applicant in his state application. The director and administrative director retained the employee despite subsequent felony convictions. Furthermore, the employee failed to report a reckless driving conviction to management as required by the Department of Human Resources' Policy 03-028.

According to the *Rules of Tennessee Department of Human Resources*, Chapter 1120-2, "Employment Practices," applicants may be disqualified for consideration of a position if the applicant has made a false application statement. Additionally, Chapter 1120-10 states that both the conviction of a felony and falsification of an official document relating to or affecting employment are examples of offenses that might cause consideration for disciplinary actions. Furthermore, Section 39-16-504, *Tennessee Code Annotated*, states:

> (a) It is unlawful for any person to:
>
> (1) knowingly make a false entry in, or false alteration of, a government record;
>
> (2) make, present, or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record;

A violation of Section 39-16-504, *Tennessee Code Annotated*, is a Class A misdemeanor.

In reviewing the personnel file of the applicant, it was determined that the administrative director's son had checked the box under the criminal history section stating that he had never been convicted, forfeited bond, or was currently on probation for any felony in a court of law. The administrator director's son signed his job application on April 25, 2005, and was hired by the museum on August 15, 2005. During both times, his signing of his application and his hire date, the administrative director's son was on probation for the 1998 felony conviction mentioned above.

The administrative director's son acknowledged that he had answered the criminal history section incorrectly and was without an explanation for the false application statement other than he may not have understood the question. He further stated that he was still on probation at the time of signing his state job application. In signing the state application, the administrator's son certified that he was aware that he could be dismissed for any falsification of the information on the application.

<u>Hiring Process and Management's Decisions Regarding the Employee</u>

The museum preparator position was established in 1982. It is a career service position (civil service). According to a representative of the Department of Human Resources, the museum has historically had difficulties in filling open positions, as was the case for the museum preparator position, because those positions require some work experience in museums or other similar entities. According to the list of certified eligibles (register), only two individuals were

qualified and interested in the position in 2005. Although the other individual scored higher, he was not available for the position, so the administrative director's son was appointed. The applicant met the job qualifications in this case because he had been working for the restoration firm that was repairing flood damage at the museum at that time in 2005. The flood damage was extensive, and the administrative director's son was assigned by the firm to the museum for over a year, cleaning exhibits, display cases, and floors. He was asked by the museum supervisor, who was overseeing the work of the restoration firm, to apply for the museum preparatory position in early 2005.

In an interview with the administrative director, she stated that she probably assisted her son with his state application but did not advise him to check the box stating that he had never been convicted of a felony. She further stated that her son's conviction was common knowledge among the staff at the museum, including the museum's executive director. According to the administrative director, her assistance to her son as he filled out the application was limited and did not include an overall review of her son's state employment application. The administrative director stated that to her the application seemed to be more of a formality as her son had been performing the work with the contracted restoration firm for over a year already and that she was not aware that her son had checked the box stating that he had never been convicted of a felony. In 2005 when her son's application was submitted, the administrative director held the position of administrative services assistant and was not involved with human resources activities.

The documentation relating to the hiring of the administrator's son does not include the applicant's criminal history or the museum management's assessment of additional risks borne by hiring someone with a felony conviction for the open position.

According to the executive director, the administrative director's son's criminal history was not a deterrent in her decision to hire the applicant as the museum's preparatory because it involved cleaning duties and did not include access to artifacts. According to the executive director, any artifacts are moved or stored by a curator if such items require moving because of cleaning.

Neither the Department of Human Resources' rules nor the job application states that an individual with a felony conviction is precluded from employment with the state. In situations where such an individual is being considered, it is incumbent upon management to assess the risks associated with hiring that individual and establish any mitigating controls deemed necessary to provide the state entity reasonable protection from loss or harm.

In this case, interviews with the executive director, the administrative director, and the museum preparator's supervisor confirmed that there were no discussions of the criminal history or felony conviction. The supervisor, without this knowledge, recommended the administrative director's son and conducted the job interview in 2005.

Additionally, neither the executive director nor the administrative director, then an administrative services assistant, shared this individual's criminal record with the foundation board. According to the executive director, the foundation board was not informed because it is

generally not involved with hiring of museum staff. Also, this individual's criminal record was not shared with members of the museum commission after it was created in 2009.

Because the employee (the preparator) is the son of the administrative director for the state museum, we reviewed the state statute pertaining to nepotism and the hiring and supervision of relatives as defined by the statute. That section prohibits relatives from being in the same direct line of supervision. This prohibition would apply when an employee has the responsibility to directly supervise or evaluate a relative's job performance, review a relative's performance evaluation, or the employee supervises the person responsible for a relative's evaluation. The state museum appears in compliance with this statutory requirement because the administrative director does not directly supervise or evaluate her son, review her son's performance evaluation, and does not supervise the person responsible for her son's evaluation. Her son is supervised by the director in the exhibits and planning area, which is separate from the fiscal and administrative area. Her son's supervisor directly reports to the Deputy Director of Collections, not the administrative director.

Undisclosed Driving Record Conviction

The museum preparatory position requires a valid motor vehicle driver's license. The administrative director's son had signed an acknowledgement that he had received, read, and understood the policies regarding the operation of motor vehicles by state employees on August 23, 2005. The Department of Human Resources' Policy 03-028 states that any driving record convictions may be considered grounds for disciplinary action for employees who are required to maintain a valid driver's license as part of their official duties, whether the offenses and infractions occurred during or outside work hours. The policy further requires that an employee whose job requires a valid driver's license advise his supervisor within 24 hours of his next scheduled work day of a conviction, suspension, revocation, expiration, or invalidation of his driver's license. According to records from the Department of Safety, the administrative director's son was charged with DUI but later convicted of a lesser charge of reckless driving in December 2008. This misdemeanor conviction was not known by the supervisor or the executive director, nor was it documented in his personnel file. At the time of this report, the museum preparator had a valid motor vehicle driver's license, which had not been suspended, according to records from the Department of Safety.

Recommendation

Regarding the employment application submitted in 2005 with false information, the new museum commission should review management's role in providing any advice or assistance to the administrative director's son in preparing his state employment application. The museum commission should take the appropriate actions needed to set the proper tone at the top.

In retaining this individual, museum management has obviously taken the position that the administrative director's son has fulfilled and is capable of fulfilling the duties associated with the museum preparator position regardless of his criminal activities outside of his state position. The museum commission should ensure that management adequately include in its risk

assessment the implications of any legal proceedings involving staff and document that assessment. Any mitigating controls deemed necessary should also be documented and implemented in a timely manner.

The administrative director's son's personnel file should be updated to include a complete and accurate history of the matters noted above.

In regard to the administrative director's son's reckless driving conviction, the museum commission should assess management's actions or inactions relative to state policy.

Museum Management's Comment

We concur with this finding. The museum follows all regulations regarding employment set forth by the State Department of Human Resources. Criminal background checks are not conducted on candidates for employment as criminal convictions do not preclude an applicant from employment with the state. Therefore, the museum must rely on information supplied by the applicant as well as reference checks in making hiring decisions. However, in this particular instance, museum management acknowledges a more thorough review of the employment application to ensure accuracy was warranted.

The employee's personnel records have been updated to reflect accurate information regarding his criminal background. He has also been counseled regarding the driving infraction and informed any further conduct which might impact his ability to successfully fulfill the requirements of the job will be grounds for further disciplinary action.

Museum Commission's Comment

The DHSMC confirms the personnel records have been updated to reflect accurate information regarding the employee's criminal background, concurs with the finding, and approves the museum's corrective action.