

2002

ANNUAL REPORT

John G. Morgan, Comptroller of the Treasury



Department of Audit

State of Tennessee

Department of Audit

2002 Annual Report

**to the
Tennessee General Assembly**



Comptroller of the Treasury, Authorization No. 307161. This public document was promulgated at a cost of \$4.01 per copy.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

December 27, 2002

The Honorable Don Sundquist, Governor
The Honorable John S. Wilder, Speaker of the Senate
The Honorable Jimmy Naifeh, Speaker of the
House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2002 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

A handwritten signature in cursive script that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/ab

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Comptroller of the Treasury



John G. Morgan
Comptroller of the Treasury

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank

in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

Comptroller Emeritus



**William R. Snodgrass
Comptroller Emeritus**

After serving as Comptroller of the Treasury from 1955 to 1999, Mr. Snodgrass decided not to seek another term of office. On January 13, 1999, by Joint Resolution of the 101st General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee. He continues to serve as a senior policy advisor for the Office of the Comptroller.

Comptrollers of the Treasury

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-

Department of Audit

John G. Morgan

Comptroller of the Treasury

Richard V. Norment, CIA, CGFM

Assistant to the Comptroller for County Audit

**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE,
CGFM, DABFE, DABFA**

Director of State Audit

Dennis F. Dycus, CPA, CFE, CGFM

Director of Municipal Audit

State of Tennessee

Don Sundquist

Governor

John S. Wilder

Speaker of the Senate and Lieutenant Governor

Jimmy Naifeh

Speaker of the House of Representatives

Riley Darnell

Secretary of State

John G. Morgan

Comptroller of the Treasury

Steve Adams

State Treasurer

Paul G. Summers

Attorney General and Reporter

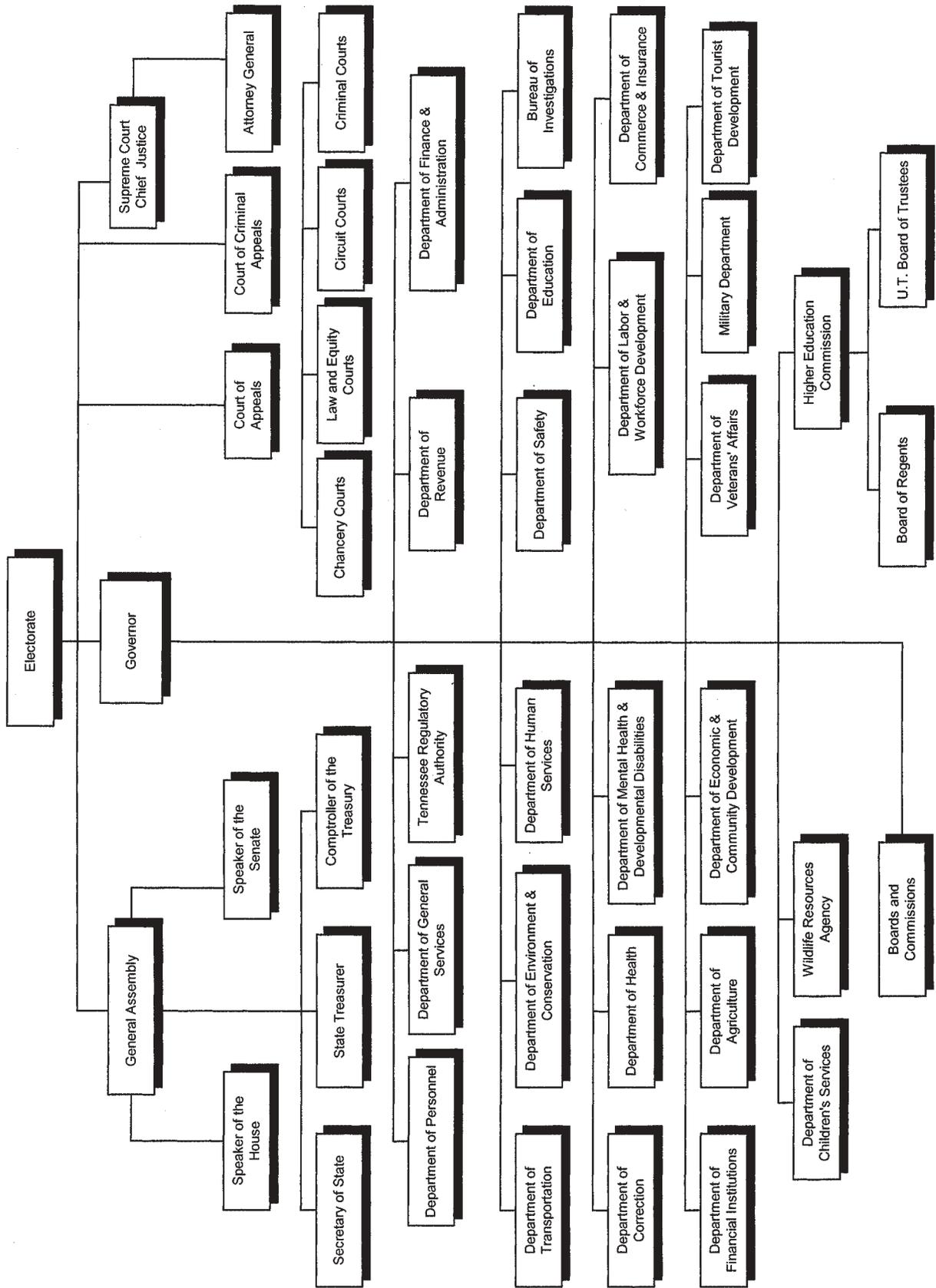
C. Warren Neel

Commissioner of Finance and Administration

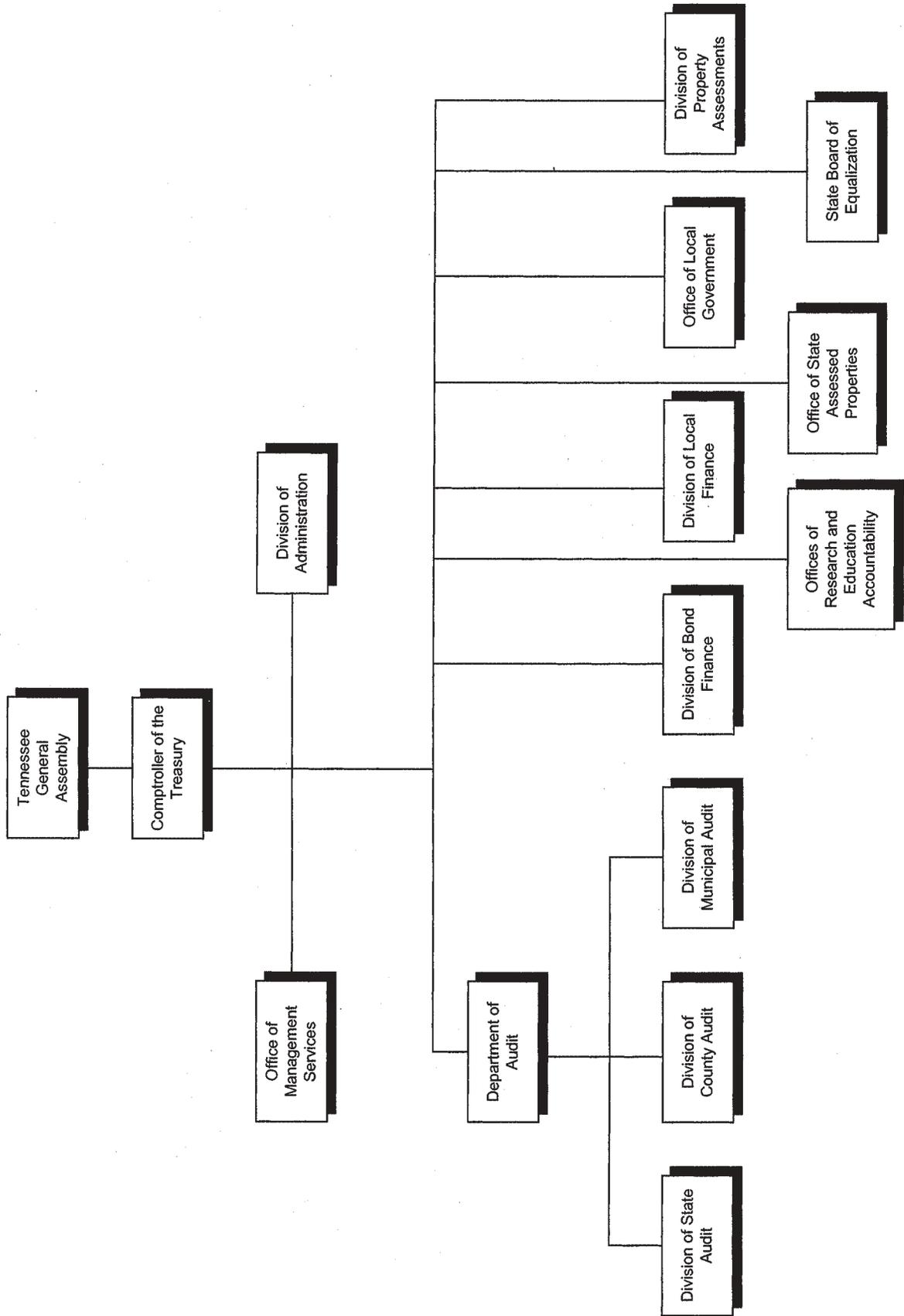
Frank F. Drowata

Chief Justice of the Supreme Court

State of Tennessee



Office of the Comptroller of the Treasury



Office of the Comptroller of the Treasury

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Child Care Facilities Corporation
Competitive Export Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Funding Board
Governor's Council on Health and Physical Fitness
Health Services and Development Agency
Higher Education Commission
Housing Development Agency
Information Systems Council
Library and Archives Management Board
Local Development Authority
Local Education Insurance Committee
Local Government Insurance Committee
Public Records Commission
Publications Committee
School Bond Authority
Security for Public Deposit Task Force
Sports Festivals, Inc.
State Capitol Commission
State Insurance Committee
State Trust of Tennessee Board of Directors
Student Assistance Corporation
Tuition Guaranty Fund Board
Utility Management Review Board
Water/Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

Division of Administration

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office. The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation.

Office of Management Services

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information systems, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Systems Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

Division of Bond Finance

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide single-family mortgages at below market interest rates to low- and moderate-income persons.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction. The division administers the loan guarantee program of the small and minority business telecommunication business assistance program under the Department of Economic and Community Development.

Division of Local Finance

The Division of Local Finance has certain statutory responsibilities with regard to the financial operations of local governments in Tennessee. The division attempts to provide a continuing and uniform program of assistance and information to local government officials in order to assist them in performing their duties as elected representatives. The division's responsibilities include the following:

- **Local Government Debt Management:** determine that debt proposals and annual budgets for certain cities, counties, utility districts and emergency communication districts are in accordance with statutory requirements.
- **Local Government Resource Management:** determine that official performance bonds for elected and appointed county officers and fiscal officers of school systems and emergency communications districts are in accordance with statutory requirements; determine that certain investment programs for cities, counties, and utility districts are in accordance with statutory requirements.
- **Debt Information Report:** determine that information reports submitted by local governments pertaining to the issuance of debt are in accordance with statutory requirements.
- **Electric System Cable Plans:** determine the feasibility of business plans submitted by local electric systems desiring to provide certain telecommunications services.
- **Interest Rate/Forward Purchase Agreements:** determine that proposals submitted by local governments for interest rate swap agreements and forward purchase agreements are in accordance with guidelines established by the State Funding Board.

Office of Local Government

The Office of Local Government provides information and assistance to local government officials and to the legislature as needed. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing for the decennial census.

Division of Property Assessments

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of Equalization in maintaining the Assessor Certification Program. The division also administers the Tax Relief Program.

State Board of Equalization

The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board’s duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties (public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.

Offices of Research and Education Accountability

The Office of Education Accountability monitors the performance of Tennessee’s elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.

The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review Committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.

Office of State Assessed Properties

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

Authority for Post-Audit

The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, *Tennessee Code Annotated*. The department is required to

perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .

make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .

certify to the fund balance sheets, operating and other statements, covering the condition of the state’s finances, as

prepared by the department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

Audit Standards

Sections 4-3-304 and 6-56-105, *Tennessee Code Annotated*, give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.

Audit Follow-up

Section 8-4-109, *Tennessee Code Annotated*, requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.

Department of Audit

The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that post-audits are organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, information systems, law, political science, criminal justice, education, and nursing. More than 40 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2002, 164 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 2002, and also includes a list of all employees holding professional certifications. This range of experience gives a broad perspective to the department's audit work.

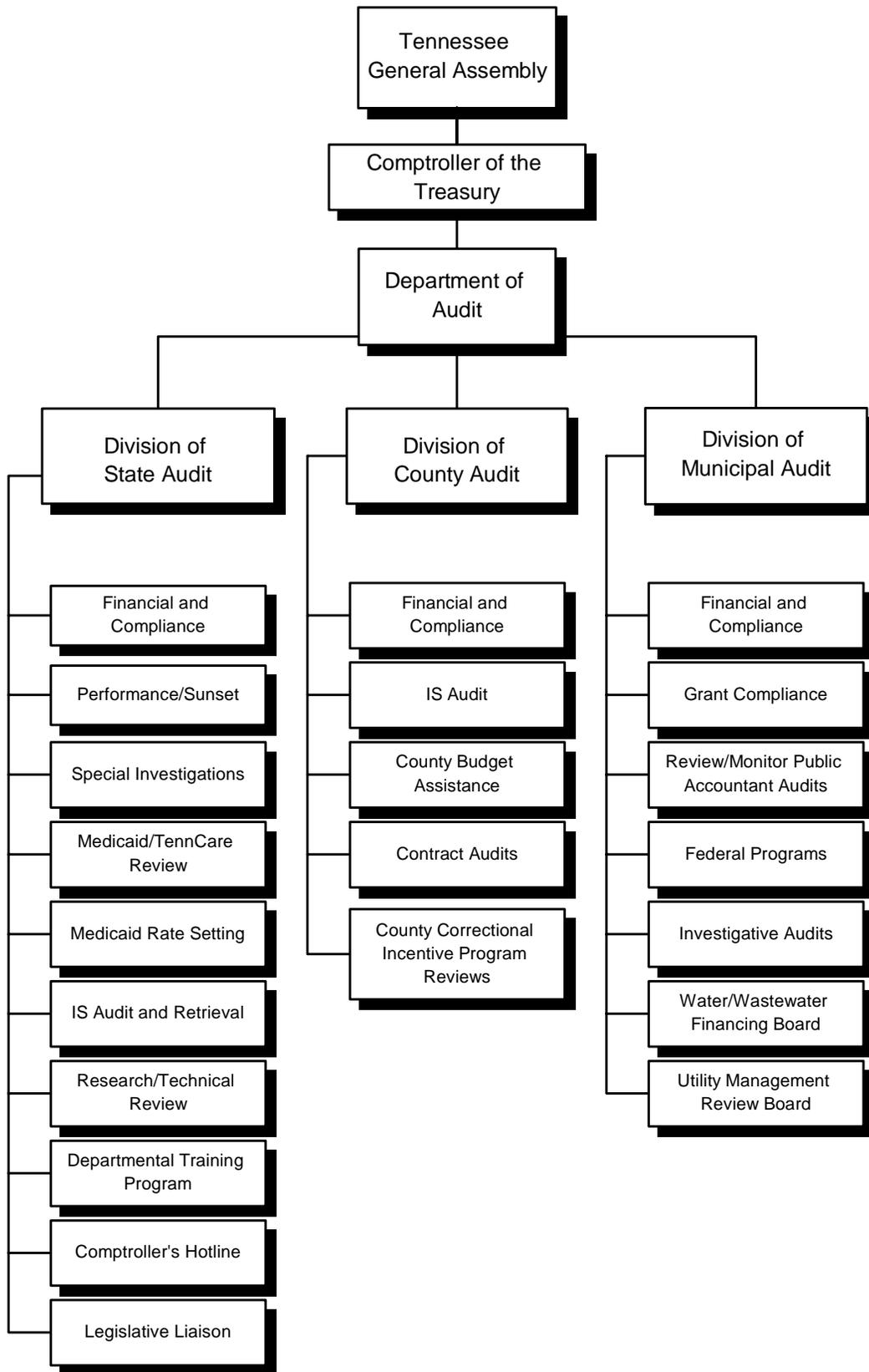
Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration

- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Tennessee Government Finance Officers Association
- Tennessee Society of Certified Public Accountants
- National Association of State Auditors, Comptrollers and Treasurers

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

Department of Audit



Improving the Audit Process

The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is the immediate past national president of the Association of Government Accountants and is a member of the Executive Committee. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program and is a member of the Executive Committee of the Southeastern Intergovernmental Audit Forum.

Arthur A. Hayes, Jr., Director, Division of State Audit, is chair of the National State Auditors Association's Human Resources Committee and past chair of the Audit Standards and Reporting Committee. He is a member of the Program Committee of the Southeastern Intergovernmental Audit Forum. In addition, Mr. Hayes is a member of the Professional Advisory Council of the School of Business, Tennessee State University, and a former member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA). He is a board member at large of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners and serves as the training director for the chapter. Both a certified public accountant and a licensed attorney, Mr. Hayes is a member of the Association of Government Accountants, the American Board of Forensic Examiners, and the American Board of Forensic Accountants. He has authored numerous articles for auditing and accounting professional publications.

Dennis F. Dycus, Director, Division of Municipal Audit, serves as a Regent Emeritus of the Board of Regents of the Association of Certified Fraud Examiners, a faculty instructor for the association on a national basis, and is a former president of the Middle Tennessee Chapter. Mr. Dycus was the recipient of the association's Distinguished Service Award for his contribution to the detection and prevention of fraud. He was one of only three members of the association to be recently designated as an Association Fellow in recognition of his "outstanding achievements in and significant contributions and exceptional service to the field of fraud examination." Mr. Dycus presently serves as a member of the Accounting Advisory Council for the Gordon Ford College of Business at his alma mater, Western Kentucky University, and is also active as a member of the Tennessee Society of Certified Public Accountants, the American Institute of Certified Public Accounts, the Government Finance Officers Association, and the Association of

Government Accountants. In addition, he has authored articles related to fraud for national publications.

Other staff serve in the following national organizations:

- National State Auditors Association
Performance Audit Committee—Deborah Loveless, Division of State Audit
Quality Control Review Committee—Deborah Loveless
Single Audit Committee—Gerry Boaz, Division of State Audit
Electronic Government Committee—Dan Willis, Division of State Audit
Auditor Training Committee—Dan Willis
Audit Standards and Reporting Committee—Gerry Boaz
- Government Finance Officers Association
Executive Board—Barbara White, Division of State Audit
Committee on Accounting, Auditing, and Financial Reporting—Barbara White
Special Review Committee—Barbara White, Gerry Boaz

Accounting and Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit's technical analyst attends the board's meetings as an observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers.

Like its commercial-sector counterpart, the Financial Accounting Standards Board, the GASB operates under the auspices of the Financial Accounting Foundation and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 39 authoritative standards, two concept statements, six interpretations, and nine technical bulletins, as well as several exposure documents from which standards are developed.

Generally Accepted Government Auditing Standards

The Department of Audit performs its audits in accordance with government auditing standards generally accepted in the United States of America as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book). These standards apply to financial and performance audits. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants.

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Quality Control Review

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from

each of the department's three divisions. The quality control review consists of three phases:

- Review of policies and procedures
- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with *Working Paper Techniques*

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by the National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards. The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to review with them a current audit of the comptroller of the treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in August 2002 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with government auditing standards generally accepted in the United States of America.

The report of the quality assessment review for the year ended June 30, 2002, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the Department of Audit's system of quality control for audits issued from July 1, 2001, through June 30, 2002, was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards." The next quality assessment review is scheduled for August 2004.

Training

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department's in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 30 courses in the department's in-house program. These courses range from "Auditing for Fraud" to "Computer Forensics" to "Audit Command Language."

The department's commitment to training extends to auditors and accountants throughout state government. Therefore, many of the in-house classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 14 members are volunteers who work to improve the training program by surveying the staff's training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the twenty-first year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Cleveland, Jackson, Morristown, and Nashville.

Local Representation in Professional Organizations

The Department of Audit fully supports its staff's active participation in local professional organizations, recognizing that these organizations contribute to the staff's continued growth.

The department plays a significant role in the activities of the Nashville Chapter of the Association of Government Accountants. Department of Audit staff hold the following offices:

County Audit

Jim Arnette	President
Penny Austin	Treasurer
David Sturtevant	Chair, Awards Committee

State Audit

Mason Ball	Chair, Education Committee Director, Executive Committee
Gerry Boaz	Co-Chair, Certified Government Financial Management Committee
Tammy Farley	Co-Chair, Community Service Committee Director, Executive Committee
Will Hancock	Chair, Newsletter Committee Director, Executive Committee
Jennifer McClendon	Chair, Early Careers Committee Director, Executive Committee
Julie Rogers	Co-Chair, Meetings and Attendance Committee
Clare Tucker	Co-Chair, Meetings and Attendance Committee
Dan Willis	Chair, Internet Committee

In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Staff from the Department of Audit are also active in the Middle Tennessee Chapter of the Association of Certified Fraud Examiners. Art Hayes from the Division of State Audit is a board member-at-large and training director. Brent Rumbley of State Audit is both secretary for the chapter and chairman of the Website Committee. Dennis Dycus of the Division of Municipal Audit is chairman of the Library Committee, and Greg Cothron of the Division of State Audit is parliamentarian.

Deborah Loveless, Division of State Audit, is a director of the Tennessee Chapter of the American Society for Public Administration.

Division of State Audit



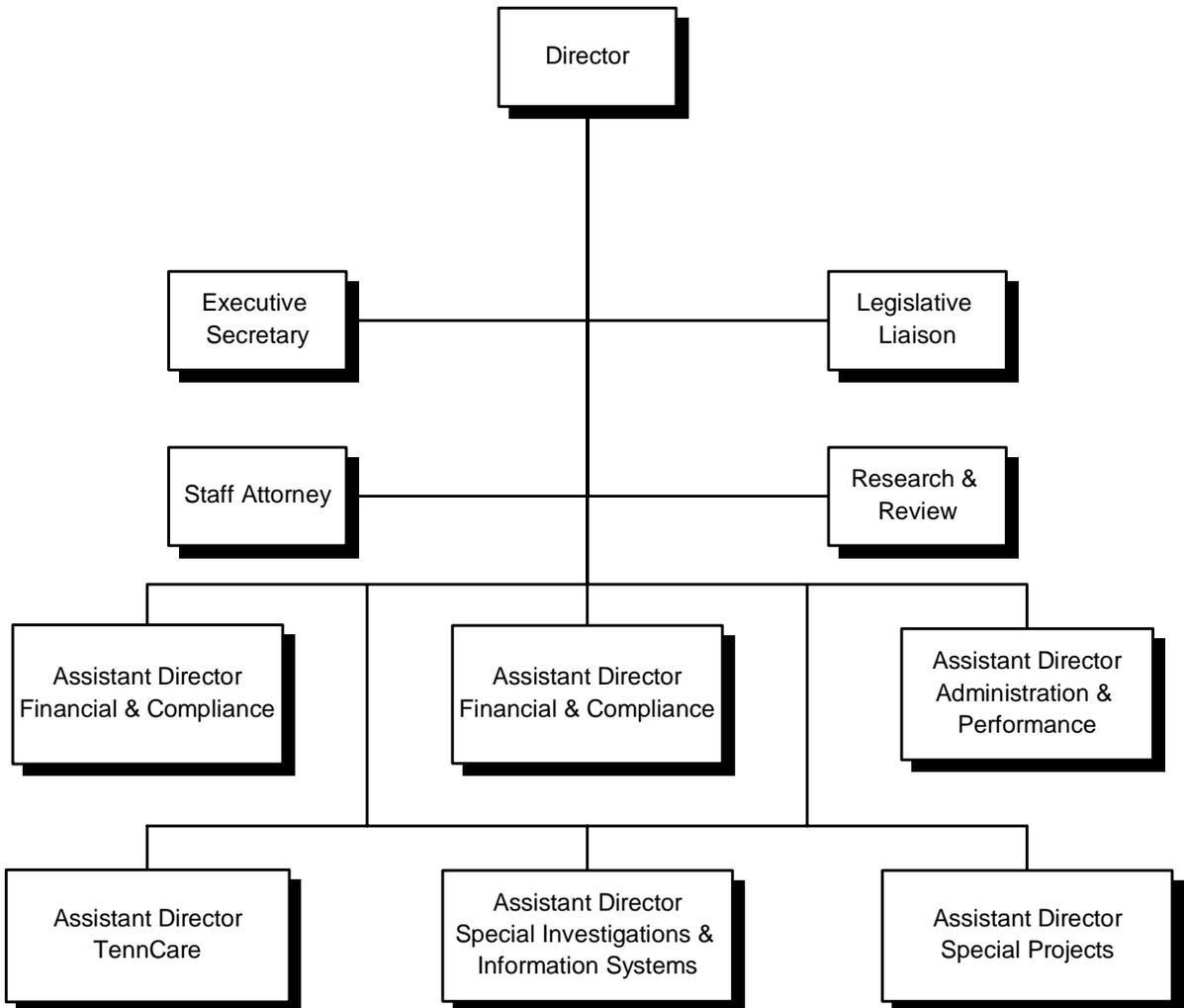
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA
Director**

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 117 reports during the year ended June 30, 2002; an additional 88 audits and special investigations were in progress at June 30, 2002.

This division includes five sections: financial and compliance, TennCare, performance, special investigations, and information systems. Highlights of the work each section performed from July 1, 2001, through June 30, 2002, are presented in this chapter. Complete reports are available upon request or on the Internet at www.comptroller.state.tn.us/sa/reports/index.html.

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

Division of State Audit



Financial and Compliance



Charles K. Bridges, CPA, CGFM
Assistant Director



Edward Burr, CPA, CGFM
Assistant Director

This section conducts financial and compliance audits of all state departments, agencies, and institutions.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 2001. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds, account groups, and component units, including colleges and universities.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges, technical institutes, and state technology centers are audited on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the

Single Audit Act as amended in 1996 and Office of Management and Budget Circular A-133. They do, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

Results of Audits

During the year ended June 30, 2002, the division published 97 financial and compliance audit reports containing 194 audit findings and issued opinions on 71 sets of financial statements. On June 30, another 66 audits were in progress. The following are summaries of some of the published audit reports.*

*Findings repeated from prior audits are marked with an asterisk.

Single Audit of the State of Tennessee

The Single Audit of the State of Tennessee for the year ended June 30, 2001, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of almost \$7.6 billion. The results of the audit of compliance of the State of Tennessee with the compliance requirements applicable to each of the state's major federal programs indicated that the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions that are applicable to its Medicaid cluster.

The noncompliance with Eligibility requirements was also considered to be material to the general-purpose financial statements of the State of Tennessee. The results of auditing procedures also disclosed other instances of noncompliance with compliance requirements applicable to major federal programs that are required to be reported in accordance with OMB Circular A-133.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$74,848,536 were questioned for the year ended June 30, 2001.

The consideration of internal control for the State of Tennessee disclosed numerous reportable conditions, including several that were considered to be material weaknesses in relation to the state's general-purpose financial statements and/or major federal programs.

The single audit included an audit of the state's general-purpose financial statements. This audit resulted in an unqualified opinion on the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2001. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

State Departments and Agencies

Department of Agriculture

For the Years Ended June 30, 2000, and June 30, 1999

Controls Over Cash Receipting and Licensing Need Improvement

The department's controls over the cash receipting and licensing procedures in the Animal Health, Pesticides, Food and Dairy, and Plant Certification divisions need improvement.

The Division of Plant Certification Has Not Enforced Department Rules*

The division has not ensured that plant dealers, nurseries, and green houses have complied with department rules developed to ensure the quality of Tennessee's nursery stock.

Tennessee Bureau of Investigation

For the Years Ended June 30, 2000,
and June 30, 1999

The Bureau Has Not Complied With the Provisions of the Financial Integrity Act

The bureau did not prepare and submit the internal control review report that was due December 31, 1999, until March 2001.

The Bureau Leased Office Space Without Obtaining Proper Approval

The bureau leased office space in Cookeville before it had requested approval from the Department of Finance and Administration.

The Bureau Did Not Maintain Accountability Over the Equipment That It Is Leasing From the Office for Information Resources in the Department of Finance and Administration

The bureau cannot locate equipment that it is leasing from the Office for Information Resources.

Department of Children's Services

For the Year Ended June 30, 2001

Children's Services Inappropriately Requested and Received Reimbursement of \$1,757,565 From TennCare for Children Not Eligible for TennCare Services*

As noted in the prior four audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior two audits, Children's Services is also billing for other categories of ineligible children. This includes children not in state custody, children in state custody but on runaway status, and children under the age of three. In addition, as noted in the prior audit, there were problems with billings for hospitalized children and for drug and alcohol treatment.

Children's Services Did Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care*

As noted in the prior three audits, the Department of Children's Services did not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for these children. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs.

The Department Established Improper and Ineffective Employer-Employee Relationships*

As noted in the prior three audits, Children's Services has entered into contracts with Community Services Agencies (CSAs) to assist in implementing various state programs. Through these contracts, CSA employees are directly supervised by state officials.

Case Files Do Not Contain Adequate Documentation*

As noted in the prior two audits, the department did not have adequate documentation in each child’s case file showing case manager contact with the child, family, or other individuals. There were substantial gaps in time between case recordings documenting case manager contacts. Time lapses between entries in case notes ranged from 35 to 560 days.

The Department Did Not Perform Reconciliations Related to Trust Fund Accounts of Children Receiving Federal Benefits and Did Not Return Funds to the Social Security Administration Timely*

As noted in the prior three audits, the department did not perform reconciliations related to Social Security trust funds and did not return funds to the Social Security Administration timely.

Department Employees’ Access to the State’s Computer Systems Was Not Adequately Controlled

The department did not promptly cancel terminated employees’ Resource Access Control Facility IDs and access to the State of Tennessee Accounting and Reporting System.

The Department Did Not Process Journal Vouchers Promptly, Resulting in Lost Interest on Amounts That Were Billed to the Federal Government*

As noted in the five previous audits, journal vouchers used to record expenditure and revenue transactions between state departments were not always processed promptly in accordance with Finance and Administration Policy 18.

Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,178,416*

As noted in the seven previous audits, Children’s Services still has uncollected overpayments due from foster care and adoption assistance parents.

The Department Has Not Promulgated Rules and Regulations for Community Services Agencies*

As noted in the prior audit, the department has not promulgated rules and regulations for Community Services Agencies as required by *Tennessee Code Annotated*.

Tennessee Consolidated Retirement System
For the Year Ended June 30, 2001

The Tennessee Consolidated Retirement System (TCRS) Should Develop and Implement Written Procedures Related to the Preparation and Use of Credit Analysis Reports That Support the Purchase of Commercial Paper

The investment policies of TCRS require the investment staff to prepare a credit analysis report on a corporation before TCRS purchases that corporation’s commercial paper. However, guidance on certain aspects of preparing and using the reports is lacking. One directive needed is how often credit analysis reports should be

updated. Other guidance needed is how the decision to purchase commercial paper contrary to the recommendation in the credit analysis report should be documented.

TCRS Should Strengthen Controls for Preventing, Detecting, and Collecting Overpayments to Deceased Persons

TCRS staff did not comply with written procedures for death match reports. In addition, written procedures for death match reports were not sufficient to reduce risks associated with the death match process. TCRS staff did not comply with written procedures for overpayments. In addition, the written procedures did not always provide sufficient guidance for staff performing the procedures.

Department of Correction
For the Years Ended June 30, 2000,
and June 30, 1999

Policies and Procedures, Operating Controls, and Training for the Tennessee Offender Management Information System Are Inadequate

The Tennessee Offender Management Information System (TOMIS) is an on-line, interactive, table-driven application consisting of more than 1,300 programs used by the department to capture data relating to offenders from the point of conviction to release from all supervision. The department does not have adequate written policies and procedures, operating controls, and TOMIS training for departmental users.

Court System
For the Years Ended June 30, 2000,
and June 30, 1999

The Appellate Court Clerk's Billing and Cash-Receipting Controls Are Inadequate*

The Appellate Court Clerk's controls over billing and cash-receipting are inadequate at all three Appellate Court Clerk offices. The new billing department does not collect delinquent litigation taxes on a percentage basis as required by *Tennessee Code Annotated*. Also, cash-receipting weaknesses, including failure to write cash receipts in the Eastern Division and failure to make timely deposits in all three divisions, were noted.

The Indigent Defense Daily Report System Still May Not Accurately Detect Overbilling

A lack of controls within the Daily Report System contributes to an environment where fraud or accounting errors could again occur.

The Administrative Office of the Courts Violated State Contracting Procedures*

The Administrative Office of the Courts signed contracts with private court reporters. However, the contracts were signed for the state only by the administrative director. By law, all such contracts should be submitted to the Comptroller of the Treasury for approval.

Management of the Administrative Office of the Courts Has Not Implemented an Effective Internal Control System

The internal control system for the Administrative Office of the Courts (AOC) is inadequate in three key areas. The AOC does not have written accounting policies and procedures; a disaster recovery

plan; or a formal, written conflict of interest policy. As a result of the weak internal controls, transactions were not always coded properly.

ISSUE FOR LEGISLATIVE CONSIDERATION

County Funding of Certain State Judges' Offices and the Provision of Salary Supplements to Certain Employees

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system, and these employees receive varying levels of county benefits; some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and paid through the state system.

A similar situation involving a district attorney general's office and county-funded credit cards previously resulted in abuse of public funds.

Department of Economic and Community Development

For the Years Ended June 30, 2000, and June 30, 1999

Internal Controls Over Federal Reporting Need Improvement

The department does not follow its procedures implemented to ensure the accuracy of federal reporting. The Performance and Evaluation Report is submitted to the federal authority on an annual basis. Tests of the reports submitted during the period under audit revealed several discrepancies. These reports were not reviewed by management prior to submittal to the federal authority.

Department of Education

For the Year Ended June 30, 2001

Controls Over Cash Receipts Are Weak

Cash-receipting duties were not adequately segregated and reconciliations between cash receipts, accounting records, and deposits were not performed by an employee independent of the receipting, depositing, and posting functions for all funds received.

Vocational Education Reporting Procedures Are Inadequate

The department has no written procedures and has not performed the necessary oversight to ensure that the Local Education Agencies report accurate expenditure amounts.

Department of Finance and Administration

For the Year Ended June 30, 2001

Top Management Must Address TennCare's Administrative and Programmatic Deficiencies*

The audit revealed many serious internal control deficiencies that have caused or exacerbated many of the TennCare program's problems.

Internal Control Over TennCare Eligibility Is Not Adequate*

For the past seven years, TennCare has failed to implement effective eligibility procedures for uninsured and uninsurable enrollees. TennCare's eligibility redeterminations were not performed adequately, consistently, or timely. TennCare had inadequate eligibility policies and procedures. There were thousands of enrollees with out-of-state addresses and/or P.O. box addresses enrolled in the TennCare program. TennCare has inadequate staff to verify information on uninsurable applications.

The TennCare Bureau Continued to Operate Without an Approved Cost Allocation Plan*

The Bureau of TennCare has continued to operate without an approved cost allocation plan, which has prevented the collection of federal matching funds for indirect costs for the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled.

TennCare-Related Activities at the Department of Children's Services Were Not Adequately Monitored*

TennCare has not adequately monitored the Department of Children's Services. Although TennCare recognized the need for a strong monitoring effort and has contracted with the Office of Program Accountability Review to provide this service, the monitoring effort still needs improvement.

Monitoring of the Medicaid Waiver for the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Was Not Adequate*

The TennCare Bureau's monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled under Section 1915(c) of the Social Security Act is inadequate to provide the federally required assurances of health and welfare and of financial accountability.

TennCare Made Payments on Behalf of Full-Time State Employees, Resulting in Questioned Costs of \$476,506 and an Additional Cost to the State of \$272,511*

TennCare paid almost \$750,000 in capitation payments on behalf of full-time state employees who are classified as uninsured or uninsurable in the TennCare Management Information System. These payments were made because TennCare has not used controls to prevent or recover payments on behalf of state employees.

TennCare Has Not Ensured an Adequate Process Is in Place for Approval and Review of Services for the Medicaid Home and Community Based Services Waiver*

TennCare has not ensured that the Division of Mental Retardation Services appropriately reviews and authorizes the eligibility of and the allowable services for recipients under the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver and the Elderly and Disabled waivers.

Internal Control Over Provider Eligibility and Enrollment Was Not Adequate to Ensure Compliance*

TennCare had numerous internal control weaknesses and noncompliance issues related to provider eligibility and enrollment including inadequate provider agreements, not reverifying Managed Care Organization and Behavioral Health Organization providers, and not following departmental rules.

TennCare Did Not Require the Department of Human Services to Maintain Adequate Documentation of the Information Used to Determine Medicaid Eligibility

TennCare did not require the Department of Human Services to maintain adequate documentation to support medicaid eligibility information including income, resources, and medical expenses.

TennCare's Monitoring of the Payments for the Pharmacy Program Needs Improvement, and TennCare Needs to Maintain Annual Drug Use Review Reports

TennCare's monitoring of the payments for the pharmacy program needs improvement. In addition, management could not locate the annual drug use review reports that were sent to the federal government.

TennCare Management Information System Lacks the Necessary Flexibility and Internal Control*

Management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. This has contributed to a number of other findings in this report.

TennCare Made Payments on Behalf of Incarcerated Adults Resulting in \$4,278,607 in Federal Questioned Costs*

TennCare does not have adequate controls in place to prevent capitation payments to managed care organizations and behavioral health organizations when enrollees become incarcerated. In addition, TennCare does not have a process to retroactively recover all capitation payments from the MCOs when enrollees are incarcerated.

TennCare Reimbursed the Department of Children's Services for Unallowable Costs Resulting in Questioned Costs of \$803,576*

TennCare has paid the Department of Children's Services for services that were outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 2001.

TennCare Paid the Department of Children’s Services Over \$1.1 Million for Services That Are Covered by and Should Be Provided by Behavioral Health Organizations*

TennCare has paid the Department of Children’s Services for services that they also paid the behavioral health organizations to provide.

TennCare Did Not Ensure Adequate Monitoring of the Medicaid Home and Community Based Services*

The TennCare Bureau did not ensure that the Division of Mental Retardation Services complied with its contract monitoring requirements.

TennCare Did Not Recover Fee-For-Service Claims Paid to Providers and Used Federal Matching Funds for Capitation Payments Paid to Managed Care Organizations for Deceased Individuals Including Those Who Had Been Dead for More Than a Year*

TennCare did not recover fee-for-service claims paid to providers and used federal matching funds for capitation payments paid to managed care organizations for deceased individuals including those who had been dead for more than a year.

Financial Integrity Act Reports Did Not Include TennCare*

Although Executive Order 23 was issued on October 19, 1999, to transfer the TennCare program and its related functions and administrative support from the Department of Health to the Department of Finance and Administration, the reports filed by the department that were due on December 31, 1999, did not include TennCare’s operations, and the Bureau of TennCare still did not report the results of the internal control examination.

TennCare Did Not Comply With the Special Terms and Conditions of the TennCare Waiver*

Management did not comply with 9 of 25 applicable special terms and conditions (STCs) of the TennCare Waiver, and controls over compliance with the STCs need improvement. Federal financial participation in the program is contingent upon compliance with the STCs.

TennCare Does Not Have a Court-Approved Plan to Redetermine or Terminate the TennCare Eligibility of SSI Enrollees that Become Ineligible for SSI*

Because TennCare does not have a court-approved plan, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees that become ineligible for SSI. Rather than getting a plan, TennCare does not terminate SSI recipients unless the recipient dies, moves out of state and is receiving Medicaid in another state, or requests in writing to be disenrolled.

TennCare Should Seek Revisions to the TennCare Waiver Which Would Require Specific Medical Conditions for Eligibility

As a result of the design of the program, the program currently does not have medical criteria to indicate what conditions are considered uninsurable. Furthermore, this decision is made by the insurance companies and not by TennCare staff.

Activities of the Office of Program Accountability Review (PAR) Were Not Performed in a Timely Manner

Interdepartmental contracts were not finalized before work was performed, reports were not issued in a timely manner, and PAR did not submit an annual report.

The Department Is Not Following Billing Policies

The Office of Business and Finance did not initiate billings for monitoring services in accordance with Policy 18.

Department of Health

For the Year Ended June 30, 2001

No Procedures to Detect Dual Participation in the WIC and CSFP Programs*

The department has no procedures to ensure that dual participation between the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Food Program (CSFP) for the MAP-South agency will be detected.

Improper Employer-Employee Relationships*

The department has established improper employer-employee relationships through contracts with community services agencies, human resource agencies, and other nonprofit organizations.

Inadequate Contract Controls*

The department did not approve contracts before the beginning of the contract period.

Quarterly Expenditure Reports Not Adequately Monitored*

The department did not ensure that subrecipients' quarterly expenditure reports were received and/or received timely.

**Tennessee Housing
Development Agency**

For the Year Ended June 30, 2001

Policies and Procedures Need Improvement

The Section 8 Contract Administration Division's policies and procedures did not address all necessary areas of operations.

**Tennessee Human Rights
Commission**

For the Years Ended June 30, 2000,
and June 30, 1999

The Commission's Revenue Procedures and Controls Were Inadequate*

One employee performed most of the cash receipting functions for most of the audit period. Also, commission revenue records were not being reconciled to the State of Tennessee Accounting and Reporting System.

Vendors Were Not Paid in a Timely Manner

The commission did not pay vendor invoices in accordance with the Prompt Payment Act of 1985.

The Commission Failed to Comply With the Financial Integrity Act*

The commission did not prepare and submit its financial integrity report in accordance with state law.

The Commission Did Not Record Its Federal Funding in Accordance With State Policy, Nor Did It Request an Exception to This Policy*

The commission did not utilize the State of Tennessee Accounting and Reporting System grant accounting system to track federal funds, as required by state policy, nor did it request an exception to this policy from the Department of Finance and Administration.

The Commission Does Not Adhere to Its Job Performance Policy

The commission did not comply with its job performance evaluation policy requiring quarterly and annual performance evaluations by the Executive Director.

Controls Over Equipment Need to Be Strengthened*

The commission could not locate some of its equipment, equipment reported as stolen had not been removed from the Property of the State of Tennessee (POST) system, and the serial number on equipment did not agree with POST.

Conflict of Interest Policies and Compliance Need Improvement*

There is no formal, written conflict of interest policy for commissioners.

Department of Human Services

For the Year Ended June 30, 2001

Electronic Benefits Transfer Auditor Reports Were Not Obtained*

The department did not ensure that required copies of Service Auditor Reports for one of the department's outside providers of Electronic Benefits Transfer services were obtained in accordance with federal requirements.

Adequate Records Were Not Kept on Vocational Rehabilitation Equipment

Testwork on a sample of this program's equipment disclosed that some pieces could not be found, others were not at the location shown in the equipment records, and some were missing their state tags.

Computer Datasets Were Not Adequately Protected

A number of computer mainframe files were found to be unprotected by the normal security procedures.

Security Over Computer Systems Access Inadequate*

Controls over access to the Tennessee Child Support Enforcement System (TCSSES), the Automated Client Certification and Eligibility Network, and the Resource Access Control Facility were inadequate.

Inadequate Administration of the Temporary Assistance for Needy Families Program

The department was not properly monitoring caseworkers' performance in all districts across the state. Additionally, testwork on sample cases disclosed that there had not been a reduction of benefits for child support noncooperation and noncompliance with work requirements.

Inadequate Documentation About Enrollees' Eligibility for Food Stamps and Temporary Assistance for Needy Families

The only hard-copy documentation that the department requires its eligibility counselors to maintain is the enrollee's application. The department monitors the accuracy of its eligibility counselors through quality control samples.

Child Support Enforcement Programmers Have Conflict of Interest

Several contract employees involved in Child Support Enforcement programming were found to be either paying child support, receiving child support, or in the process of petitioning the court to establish paternity.

Noncompliance With Child Support Enforcement Procedures*

Testwork on sample cases disclosed that there was noncompliance in the areas of establishment of paternity and support obligation, medical support, and interstate cases. Also, the amount of undistributed child support collections shown on TCSES does not agree with the department's accounting records.

Noncompliance With State Inspection Requirements for Childcare Providers*

The department did not always perform the required number of unannounced inspections of licensed childcare providers. The department did not always document its investigations of complaints about childcare providers in its Tennessee Child Care Maintenance System.

Inadequate Procedures for Ensuring That Subrecipients Obtain and Submit a Single Audit Report

The department did not adequately maintain a listing of subrecipients who are required to file a single audit report.

Department of Labor and Workforce Development

For the Year Ended June 30, 2001

Annual Inventory Was Not Completed

The department did not complete its annual physical inventory for the year ended June 30, 2001.

The Department Did Not Comply With the Department of Finance and Administration's Policy 22, Subrecipient Monitoring

The department failed to submit the required annual monitoring plan and annual report to the Division of Resource Development and Support.

Single Audit Reports of the Department’s Subrecipients Were Not Always Obtained and Reviewed

The department did not obtain and review all the subrecipients’ single audit reports as required by Office of Management and Budget Circular A-133.

Computer Access Authorization Forms Are Not Maintained

The department does not maintain computer access authorization forms beyond two years.

Title IX Compliance Report and Implementation Plan Was Not Submitted

The department did not submit an annual Title IX compliance report and implementation plan to the Department of Audit for fiscal year ending June 30, 2001.

Local Government Group Insurance Fund

For the Year Ended June 30, 2001

The Tennessee Insurance System (TIS) Is Not Functioning Efficiently and Effectively*

TIS has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, changes are being made directly to the TIS database.

Application Development Facility (ADF) Changes Were Not Always Properly Supported or Made Correctly

ADF changes are used to manually adjust participants’ accounts on TIS; however, some of these ADF changes had incomplete documentation or were made incorrectly.

Department of Mental Health and Developmental Disabilities

For the Years Ended June 30, 2000, and June 30, 1999

The Department Did Not Have Current Related-Party Transaction Policy and Procedures

The department failed to maintain a current related-party transaction policy which requires that conflict-of-interest disclosure statements be placed in key employee personnel files. The auditors noted that files of top management did not contain conflict-of-interest disclosure forms.

The Department Did Not Properly Approve Contracts Before the Beginning of the Contract Period or Before Funds Were Paid to the Contractors

The department failed to approve contracts before the beginning of the contract period or before funds were paid to the contractors, which allowed services to be rendered and paid before the contracts were approved. Some contracts were not approved until 5 to 448 days after the beginning of the contract period, an average of 77 days late.

Controls Over Checks at Moccasin Bend Mental Health Institute Need Improvement

The Moccasin Bend Mental Health Institute did not have adequate controls over the check process. The institute does not have proper segregation of duties during the check writing process, and adequate accountability over the check stock was not maintained.

Memphis Mental Health Institute Did Not Follow Contract Guidelines and Performed Inadequate Review of Travel Claims

Memphis Mental Health Institute did not follow state rules and regulations and contract guidelines regarding consultants. The institute did not retain proper supporting documentation for hotel charges made by consultants. The auditors discovered that travel claims for consultants were overbilled. In addition, the institute could not provide travel claims for contractors for eight months out of the audit period.

The Department Used an Inappropriate Interagency Agreement

The department has two TennCare Partners programs with the Bureau of TennCare, a no-cost Interdepartmental Agreement and a Memorandum of Understanding. Although the contracts do not include cost, the department billed and received reimbursement from the Bureau of TennCare for administrative costs related to the TennCare Partners program.

Internal Controls Over Patient Trust Funds Were Inadequate

The department's internal controls over patient trust funds were weak. The department's policies regarding balances of discharged patients were found to be inadequate and ambiguous. In addition, the auditors discovered that trust fund bank reconciliations at Moccasin Bend were not completed monthly. Patient trust fund cash disbursement records at Middle Tennessee Mental Health Institute for the year ended June 30, 1999, could not be found.

The Department Was Not in Compliance With the Department of Finance and Administration's Policy on Maintenance Benefits

The department did not comply with Finance and Administration's (F&A) Policy 16, "Employee Housing and Meals." The tenants' social security numbers were not included in the housing plan submitted to F&A. The auditors also discovered that employees living in state-owned housing had not signed a rental agreement as required. Discrepancies indicate that housing plan revisions were not being communicated to F&A in a timely manner.

The Property of the State of Tennessee System Was Not Adequately Updated

The department has not adequately updated the Property of the State of Tennessee (POST) system to reflect adequate information regarding equipment. In a sample of departmental equipment, several discrepancies were noted. Items examined did not match the location, cost, or status listed in POST. In addition, there were items examined that did not bear the proper state tag. Retired items were still listed as active in POST.

The Department's Inventory Systems Were Not Adequately Maintained

The department has not adequately maintained the inventory control systems. In a sample of departmental inventory items, many items

did not match the amounts shown on the inventory listing. Problems were noted at all five institutions.

The Department Was Unable to Provide Adequate Documentation to Show That the Controls Over Performance Evaluations Had Been Strengthened*

The department has not complied with state personnel policies requiring periodic employee performance evaluations. The Department of Personnel's rules require that each career service employee's performance be evaluated at least every 12 months. Inquiries were made in regard to policies and procedures giving specific guidelines for performance evaluation. Documentation was requested relevant to the audit period to show that a 25% decrease in overdue evaluations had been attained as stated in Management Comments to the prior-year audit finding regarding performance evaluations. The department was unable to provide either.

The Department of Mental Health and Developmental Disabilities Did Not Prepare a Title IX Implementation Plan as Required by Tennessee Code Annotated

The department did not prepare a Title IX implementation plan as required by state law. State law requires each state government entity subject to Title IX of the federal Education Amendments of 1972 to develop an annual Title IX implementation plan, which prohibits discrimination on the basis of gender in federally funded education programs and activities.

Military Department of Tennessee

For the Years Ended June 30, 2000, and June 30, 1999

Inadequate Segregation of Duties*

Duties involving access to the Tennessee On-Line Purchasing System and the Property of the State of Tennessee system were not adequately segregated.

Weak Controls Over the Station Commanders' Upkeep and Maintenance Funds*

Visits to selected armories and reviews of selected quarterly reports disclosed inadequate monitoring of the funds, inadequate segregation of duties, and noncompliance with applicable regulations.

Active State Duty Payroll Documentation Not Maintained*

The files used to calculate the active state duty payroll are not always complete.

Inadequate Recordkeeping Procedures for Federal Active Duty

State leave and attendance records are inadequate for determining if employees who served on federal active duty were in a proper leave status from the state at the time.

Equipment Records Not Properly Maintained*

Two pieces of equipment could not be found. Others were found at a location different from the one shown on the department's records. State tags were not attached to all equipment.

Noncompliance With Department of Finance and Administration Policy 22, “Subrecipient Monitoring”

The department did not send required reports and plans to the Department of Finance and Administration. In addition, the department did not include all of its subrecipients in the monitoring plan, due September 30, 1999.

Noncompliance With the Financial Integrity Act*

The department did not submit the responsibility letter that was due June 30, 2000, to the Commissioner of Finance and Administration and the Comptroller of the Treasury.

Department of Personnel

For the Years Ended June 30, 2000, and June 30, 1999

The Department Did Not Promptly Detect and Accurately Report Disposition of Equipment

During the annual physical inventory of equipment, the Department of Personnel could not locate several items on its property listing. Although the department’s physical inventory detected that the items were missing, its internal controls did not promptly detect the movement or disposition of these items.

Poor Controls Over Performance Evaluations

The department has not complied with its own personnel policies requiring periodic employee performance evaluations.

Tennessee Board of Probation and Parole

For the Years Ended June 30, 2000, and June 30, 1999

The Board Needs to Strengthen Controls Over Equipment*

The Tennessee Board of Probation and Parole had numerous discrepancies relating to the proper recording of required equipment information on the Property of the State of Tennessee system.

Tennessee Rehabilitative Initiative in Correction

For the Years Ended June 30, 2000, and June 30, 1999

Agency Did Not Comply With the Financial Integrity Act

The report on the internal accounting and administrative control was received late, and supporting documentation of management’s evaluation could not be provided.

Department of Revenue

For the Year Ended June 30, 2000

Computer Programs Should Not Be Used to Change Data in RITS*

Computer programs called SPUFIs (Sequential Processing User File Input) are being used by Management Information Systems staff to correct taxpayer accounts directly in the Revenue Integrated Tax System (RITS) rather than through authorized and documented transactions.

The Department of Revenue Does Not Always Deposit Special Processing Remittances Timely*

Receipts are not always deposited timely. Special processing items were not deposited within 24 hours of receipt as required by state law.

Receipt and Deposit Dates of Payments Requiring Special Processing Are Not Always Recorded Correctly

The department does not record accurate receipt dates and deposit dates on RITS.

The Department Does Not Properly Track and Monitor Refund Claims in Order to Minimize Interest Paid*

Fifty-one of 60 refunds tested over \$50,000 took from 48 to 383 days to process before being turned over to the Attorney General's office for signatures. Nine of 61 refunds tested under \$50,000 exceeded the 45-day limit for refunding taxpayers to avoid paying an interest penalty.

Balancing Problems Are Still Occurring in RITS*

Out-of-balance conditions are occurring with the Revenue Integrated Tax System. The debits and credits of the Internal Tax Change columns did not balance 96% of the time.

Tax Enforcement Delinquent Cases Should Be Followed Up in a Timely Manner*

In 21 of 60 delinquent tax enforcement cases tested, cases were not followed up in a timely manner.

Department of Safety

For the Years Ended June 30, 2000,
and June 30, 1999

Counties Are Not Submitting the Proper Amount of Fines and Fees Collected

The department failed to ensure that county clerks have submitted the proper amount of fines and fees in accordance with state law. County clerks have authority to receive 5% for receiving and paying over all taxes, fines, forfeiture, and fees. The auditors noted that certain counties were keeping 15%.

The Department Does Not Post Bad Checks to the Driver's History File Timely*

The department has not posted bad checks to drivers' history files in a timely manner. Some bad checks took from 11 to 54 business days to be posted to a driver's history file. In addition, the compliance inquiry screen utilized by the driver's license stations does not indicate to the driver's license station employees that the driver has issued a bad check to the department in the past.

Controls Over Cash Receipts Were Inadequate

The department does not have adequate controls over cash-receipting procedures. Cash receipts are not adequately safeguarded, and there is not adequate segregation of duties in the cashier's office. The department's mailroom does not endorse checks at the earliest point of receipt. Cash receipts for restoration fees are not always written timely.

Accidents' and Violations' Untimely Posting to Drivers' Records Has Increased From the Prior Year*

Since 1990, the department has not posted accidents to drivers' records in a timely manner. Posting to drivers' records took, on

average, 10 weeks in fiscal year 1999 and 19 weeks in fiscal year 2000, from the date of the accident to the date the department posted the accident to the driver's record. As a result of this delay, the department may not be promptly identifying unsafe drivers and taking actions, when necessary, to suspend or revoke driving privileges.

Controls Over the Reconciliation of Motor Vehicle Plates and Decals With Revenue Are Inadequate*

The Motor Vehicle Title and Registration Division (MVD) does not reconcile inventory reports of distributions of vehicle plates and decals with the revenue received from the county clerks for sale of these items. If the MVD does not periodically reconcile remittances from county clerks with reductions in each county's reported inventory, the department cannot be assured it has received all the revenue it is due.

County Clerk Reports Were Not Submitted Timely*

The county clerks did not submit reports of applications and original registrations and reports of renewal registrations to the Motor Vehicle Title and Registration Division in accordance with applicable laws, and the department has not consistently notified county clerks of delinquent reports. The Department of Safety has the option to take action against the county clerks for failing to submit the required reports within the time frame required by law.

The Motor Vehicle Title and Registration System Does Not Produce Reliable Data and Is an Inadequate Basis for the Reapportionment of Revenue Collected From Registration Fees

The computer system used by the Motor Vehicle Title and Registration division is inadequate in accumulating title and registration fee information. As a result, management had to make adjustments in the funds apportioned to the Department of Transportation and other state departments. However, since the adjustment was based in part on information from the faulty system, the accuracy of the reapportionments cannot be determined.

Controls Over Payroll Time Sheet Preparation Are Inadequate*

The Department of Safety does not have adequate controls over the preparation and review of payroll time sheets. As a result, the department made 19 overpayments, totaling \$6,577.05, to employees through June 2000, according to reports submitted to the Office of the Comptroller of the Treasury. Six of these overpayments, totaling \$1,390.68, have not been collected.

The Department Failed to Approve Contracts Before the Beginning of the Contract Period*

The department allowed contract services to be performed before proper approvals of the contract were obtained. For all 30 contracts tested for fiscal year ending June 30, 1999, the contract approvals were not obtained before the beginning of the contract period. If contracts are not approved before the contract period begins and

before services are rendered, the state could be obligated to pay for unallowable services.

Department Personnel Exhibit Lack of Concern for Proper Accountability Over Equipment

The Department of Safety personnel in locations across the state have been insensitive to the need for internal control and accountability over the department's equipment. Personnel at the driver's license stations seemed unaware of proper policies and procedures regarding the accountability of equipment. Personnel at the department's warehouse did not know the location of the equipment items assigned to the warehouse and did not believe they were responsible for those items.

Controls Over Equipment Are Inadequate

The department did not maintain proper accountability over equipment. Equipment items were at locations other than what was shown on the equipment record. Equipment items were transferred without documentation, and some items could not be located.

SPECIAL INVESTIGATION

The Department Failed to Properly Approve Secondary Employment

Department of Safety officials allowed a department employee who was on sick leave status to obtain secondary employment during the time the employee was on sick leave. This practice is strictly prohibited by department policy.

The Department Failed to Appropriately Supervise an Employee Working at Home While the Employee Was on Sick Leave

The department employee on sick leave status was also paid for work at home despite a lack of formal approval and a lack of detailed documentation of work performed and hours worked.

Tennessee State Veterans' Homes Board

For the Year Ended June 30, 2000

Accounts Receivable Practices Are Not Adequate*

The Tennessee State Veterans' Homes Board's accounts receivable balances do not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments, and the management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans.

Internal Control for Fixed Assets Is Not Adequate*

Equipment records are inadequate to integrate annual inventory results into the general ledger, and a clear capitalization policy is not in place.

Internal Control for Purchasing Is Not Adequate*

The board facilities do not have an adequate segregation of duties relating to purchasing, the board's policies and procedures over

purchasing are not being followed, and service contract approvals required by state law are not being obtained.

Receipt of Goods and Services Was Not Documented*

The verification of receipt was not consistently documented.

Internal Control for Donations to the Tennessee Veterans Home Foundation, Inc., Is Not Adequate

Foundation cash receipting duties are not segregated to provide internal control.

State Funds Are Being Commingled With Management Company Funds

The board gives cash for veterans' homes expenses to the management company before those expenses have been paid by the management company.

Petty Cash Policies Are Inadequate and Are Not Being Followed

The petty cash policy does not address what types of purchases can be made through petty cash funds. The policies and procedures that have been adopted are not being followed.

Resident Trust Fund Petty Cash Is Vulnerable to Misappropriation

Resident trust fund petty cash duties are not segregated, and approvals for withdrawal are not appropriate.

Cash Receipts Were Vulnerable to Misappropriation*

Cash receipting duties are not segregated to provide internal control.

Foundation Affairs Are Not Separate

Employees of the board handle cash receipting and financial records for the foundation.

Management Fee Expense Was Not Adjusted Timely

The management fee expense was not adjusted timely for prior-year audit adjustments, affecting the management fee calculation.

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2001

The Student Loan Information Reflected in the Corporation's System Was Not Always Correct

A random sample of student loans with a status of "in-school" or "repayment" was selected from the corporation's listing of outstanding loans. For each sample loan, the school or lender (current holder of the loan) was contacted to confirm the authenticity and status of the loan. Based on the testwork performed, for 8 of 55 loans (14.5%), the student status shown in the corporation's system did not agree with the status reported by the lender.

**Department of
Transportation**

For the Year Ended June 30, 2001

**Department Personnel Did Not Always Maintain Adequate
Supporting Documentation for Contractor Payments**

On December 4, 2001, the Department of Transportation Internal Audit Office issued the special report *Newbern Construction Office*. As described in this report, the Newbern Construction Office did not maintain adequate supporting documentation on a current basis for one contract.

**Departmental Policies and Procedures to Ensure Compliance
With Davis-Bacon Not Always Followed***

The department has established policies and procedures to help ensure compliance with the Davis-Bacon Act. However, department personnel do not always adhere to these policies and procedures. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted. One contractor did not submit payrolls in accordance with the contract requirements.

**Inspections of Bridges and Other Structures Are Not Always in
Accordance With Departmental Procedures***

The department has established policies and procedures for inspecting bridges and other structures. However, department personnel do not always comply with its inspection procedures documented in *The Tennessee Department of Transportation Bridge Inspection Program Procedures Manual*. Divers did not always perform underwater inspections. Also, an underwater inspection by a departmental inspector was not documented.

**The Department of Transportation Should Improve Controls
Over Programmer Access to DOT STARS Production Data Sets**

The Office for Information Resources' Systems Development Support programmers had ALTER access to the Department of Transportation State Transportation Accounting and Reporting System (DOT STARS) data sets. ALTER access grants users the ability to directly change or delete the contents of application data sets.

DOT STARS Disaster Recovery Plan Is Insufficient*

The disaster recovery plan for DOT STARS is insufficient. Much of the plan is simply a set of generic guidelines for addressing specific issues relating to disaster recovery. Detailed plan revisions have not been completed or incorporated into a comprehensive plan.

**Department of Tourist
Development**

For the Years Ended June 30, 2000,
and June 30, 1999

Lack of Compliance With the Financial Integrity Act

The department failed to include all required information in its June 30 responsibility letters. Furthermore, the department did not maintain supporting documentation for its internal accounting and administrative control evaluation. The department's report on its evaluation was not received by the Department of Finance and Administration and the Comptroller of the Treasury as required by law.

Department of the Treasury
For the Year Ended June 30, 2001

The Department of the Treasury Should Develop and Implement Written Procedures Related to the Preparation and Use of Credit Analysis Reports That Support the Purchase of Commercial Paper

The investment policies of the State Pooled Investment Fund require the Department of the Treasury to prepare a credit analysis report on a corporation before the department purchases that corporation's commercial paper. However, guidance on certain aspects of preparing and using the reports is lacking. One directive needed is how often credit analysis reports should be updated. Other guidance needed is how the decision to purchase commercial paper contrary to the recommendation in the credit analysis report should be documented.

The Collateral Pool Board and the Department of the Treasury Should Ensure That Annual, Quarterly, and Monthly Reports Required From Participating Financial Institutions Are Received and Reviewed

The required annual, quarterly, and monthly reports from financial institutions are used to determine if the institutions have reported all public deposits held and pledged sufficient collateral for the public deposits held. However, some required reports are not being received, are not received by the due date, or are not properly completed. It appears that the department lacks adequate enforcement procedures to ensure that required reports are completed and submitted to the department. Also, the department needs to review the annual reports to determine that the appropriate person completes them.

Tennessee Wildlife Resources Agency

For the Years Ended June 30, 2000, and June 30, 1999

Controls Over Cash Receipts at the Central Office Need to Be Improved*

Although management has taken steps to strengthen controls over cash receipts, there are still problems at the central office.

The Agency Did Not Comply With Department of Finance and Administration Policy 20

The agency did not properly enter grants into the State of Tennessee Accounting and Reporting System (STARS) grant module. The Schedule of Expenditures of Federal Awards was not prepared using the STARS grant activity report as a basis. Federal receipts instead of federal expenditures were reported on the Schedule of Expenditures of Federal Awards. Some drawdowns of federal money were not made timely. All grant expenditure and revenue transactions were not coded correctly in STARS. The agency did not obtain a written exception for any of the departures from Policy 20.

Universities, Colleges, Technical Institutes, and Technology Centers

Columbia State Community College

For the Years Ended June 30, 2000, and June 30, 1999

Financial Aid Refunds Were Not Promptly Returned

The college did not always return the federal financial aid portion of refunds to the lending institutions in a timely manner.

East Tennessee State University

For the Year Ended June 30, 2001

The University Did Not Identify Unofficial Withdrawals on a Timely Basis

The university did not identify Title IV financial aid recipients who unofficially withdrew during the spring 2001 and summer 2001 semesters until October of 2001. The failure to identify financial aid recipients who unofficially withdraw on a timely basis could result in funds not being returned to Title IV programs or lenders within the time frame specified by federal regulations.

The University Did Not Follow Proper Acceleration Procedures for Perkins Loans

For borrowers in default who were tested, the university did not send the intent to accelerate notice at least 30 days in advance. The intent letters were dated from 8 to 28 days prior to the loan being accelerated. Acceleration means making payable immediately the entire outstanding balance of the loan, including interest and any applicable late charges or collection fees.

Pellissippi State Technical Community College

For the Years Ended June 30, 2001, and June 30, 2000

Failure to Report Pell Disbursements on a Timely Basis

Pell disbursements were not always reported to the U.S. Department of Education within 30 days, as required by federal regulations. Disbursements were reported from 13 to 45 days late.

Shelby State Community College

For the Year Ended June 30, 2000

Financial Reports Were Not Accurately Prepared*

The college's unaudited financial report for the year ended June 30, 2000, which was submitted to the Tennessee Board of Regents (TBR), was not accurately prepared. The report contained information that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements or on other supporting schedules, and inaccurate note disclosures. College personnel did not follow the instructions or perform comparisons between related schedules. Several of the noted errors could have been detected and corrected if the TBR instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements.

Internal Controls Related to Restricted Fund Accounts Were Weak

Internal controls over restricted fund accounts were weak. Because of weak internal controls, restricted activity was not properly recorded, activity related to the U.S. Department of Education programs was not properly reported to or reconciled with the Grants Administration and Payment System, and adequate collection efforts were not made to collect prior-year receivable balances.

Tennessee State University
For the Year Ended June 30, 2001

SPECIAL INVESTIGATIONS FINDING

Ticket Office Staff Did Not Exercise Appropriate Control Over Cash Payments to Spot Light Entertainment, Inc., and the Ticket Office Did Not Have Adequate Controls Over Ticket Sales

University staff associated with the ticket office made several significant errors related to the payment of cash to Spot Light for the Isley Brothers concert. The lapses in controls contributed to questions about the amount of cash in the safe, the extent of cash sales on Sunday, and the amount of cash disbursed. In addition, several weaknesses were noted in the controls over ticket office sales. In the absence of timely, complete, accurate, and documented reconciliations, the university cannot be assured that its financial assets are being appropriately protected, properly classified, correctly recorded, and promptly deposited.

Tennessee Technology Center at Jackson
For the Years Ended June 30, 2000, and June 30, 1999

The Center Did Not Document the Cost of Attendance for Student Financial Aid Recipients

The center did not maintain documentation of the cost of attendance determination for the 50 student financial aid recipients whose eligibility was tested.

Tennessee Technology Center at Newbern
For the Years Ended June 30, 2000, and June 30, 1999

Ineligible Students Received Title IV Funds

Seven students during fiscal year 2000 and one student during fiscal year 1999 received Title IV aid for which they were not eligible. Two students in fiscal year 2000 did not maintain satisfactory progress in accordance with minimum grade requirements. Five students in fiscal year 2000 and one student in fiscal year 1999 did not maintain satisfactory progress in accordance with attendance policies. Attendance was not adequately reviewed before checks were disbursed for the current term, nor were grades or attendance records adequately reviewed prior to aid being awarded for the subsequent term.

The University of Memphis
For the Year Ended June 30, 2001

Bank Reconciliations Were Not Properly Completed

University personnel did not always properly complete bank reconciliations. Reconciliations for the months of July 2000 through December 2000 were not completed until January 2001. In addition, the June 2001 reconciliation, which was not completed until September 2001, contained several discrepancies.

The University of Tennessee
For the Year Ended June 30, 2001

Failure to Properly Perform Bank Reconciliations

The University of Tennessee did not properly reconcile its general account and a Memphis depository account with the general ledger during the 2001 fiscal year. Unresolved reconciling items should be reviewed in a timely manner to ensure that ledger balances are correct.

Deposits Were Not Adequately Collateralized

The university did not properly monitor the bank balances of a depository bank in Crossville, Tennessee, and a depository bank in Martin, Tennessee. As a result, deposits were not always properly insured and/or collateralized.

Effort Certification Reports Are Not Submitted to the Controller's Office on a Timely Basis*

Effort certification reports are not being submitted to the controller's office on a timely basis. These reports document payroll costs charged to federally sponsored grants and contracts.

Community Services Agencies

Hamilton County
Community Services Agency
For the Year Ended June 30, 2001

Alleged Employee Fraud Was Not Reported to the Comptroller of the Treasury

The Executive Director did not notify the Comptroller of the Treasury, as required by Section 8-19-501, *Tennessee Code Annotated*, about the investigation of a case manager's travel claim. Mileage claimed was considered to be significantly exaggerated. Upon meeting with the case manager, the Executive Director gave this employee the opportunity to resign.

The Agency Should Comply With Contract Terms

Two contracts with Camelot Care Centers, Inc., to provide case management services to clients of the CSA exceeded the maximum liability stated in the contract. The maximum liability was exceeded by \$877.23 on one contract and \$14,491.33 on the other contract.

Memphis and Shelby County
Community Services Agency
For the Year Ended June 30, 2000

The Agency's Financial Activities Were Not Prudently Managed

The Chief Financial Officer (CFO) maintained excessive balances in the agency's non-interest-bearing payroll account. At times, the account balance was over \$500,000. The CFO did not bill for \$40,000 of revenues due from the city school system. Also, several errors were noted in the financial statements, which included account balances that were understated and overstated.

Bank Reconciliations Were Not Performed Timely

The bank statements for the operating and payroll accounts were not reconciled to the accounting records for some months. For other months, the reconciliations were performed many months after the bank statements were received.

Both of the reportable conditions described above were considered material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Agency Did Not Comply With Contract Terms

Services under an emergency residential contract were authorized prior to the approval of the contract, and the maximum liability under the contract was exceeded by more than \$50,000.

**Mid-Cumberland
Community Services Agency**
For the Year Ended June 30, 2000

Accrued Leave Liability Misstated Due to Calculation Errors

Because employees incorrectly entered information into the accounting software, employee leave balances and accrued leave liabilities were misstated. Agency personnel manually recalculated the leave balances; however, numerous errors were made in these recalculations.



Gregg Hawkins, CPA, CFE
Assistant Director

The TennCare section of the Division of State Audit, under an agreement with the Department of Finance and Administration, performs certain audit and rate-setting functions for the state's TennCare program.

A staff of 15 professional auditors and two nurse auditors perform the following functions:

- Cost settlements for state operated Development Centers that provide services to mentally retarded recipients.
- Rate setting and audit for nursing homes and Intermediate Care Mental Retardation facilities that participate in the Medicaid Program.
- Examinations of TennCare Managed Care Organizations (MCOs) and Behavioral Health Organizations (BHOs) that contract with the state to provide medical services under the program. The examinations are performed jointly with TennCare staff of the Department of Commerce and Insurance.
- Compute reimbursement settlements and prospective rates for Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) as required by the Benefits Improvement and Protection Act of 2000 (BIPA).

- Clinical monitoring of the state's Mental Retardation Waiver project.
- Compute Certified Public Expenditures (CPE) for public hospitals. CPE is defined as unreimbursed TennCare costs. The TennCare waiver provides for additional federal funding depending on the level of CPE in the public hospitals.

Audits of Nursing Facilities

In fiscal year ended June 30, 2002, the TennCare section completed six audits of nursing facilities and intermediate care facilities. The audits reported findings such as

Nonallowable expenses
Inaccurate accumulation of patient days
Excessive charges to Medicaid residents

Audits of TennCare MCOs and BHOs

In fiscal year ended June 30, 2002, the TennCare section completed five examinations of MCO and BHO contractors. Examples of significant findings reported included

Deficiencies in claims processing system
Deficiencies in provider contract language

The state also performs quarterly monitoring of one of the MCOs that is currently under state operation.

In addition to audit and rate setting, the TennCare section also provides some financial and budgeting support to the program. For example, nursing home payments are tracked so that the state can better prepare its budgets.



Barbara K. White, CPA, CGFM
Assistant Director
TennCare-Special Projects

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. Two such projects are currently in progress:

- The state, under a consent decree with the federal court, has agreed to comply with certain requirements with respect to TennCare enrollee grievances and appeals. The TennCare managed care contractors and their providers are also subject to the consent decree, so it has widespread implications. The agreement, commonly referred to as the “Grier Consent Decree,” became fully effective on November 1, 2000.

The Grier Consent Decree required the state to enter into an agreement with the Comptroller’s Office to monitor all aspects of compliance with the order and to report quarterly. The areas to be addressed specifically in the report are as follows:

- (a) Compliance with notice and appeal procedures when the defendants or others acting on their behalf propose to take any adverse action affecting inpatient or residential behavioral health services.
- (b) Compliance with requirements that provide special notice and appeal protections for children in state custody.
- (c) The consistency and rigor of the defendant state officials’ actions to enforce the terms of this order against their contractors.

- (d) The extent to which the defendant state officials are analyzing data to identify patterns of contractor noncompliance with federal or state requirements and taking appropriate action to correct systemic violations or other problems adversely affecting beneficiary care.
 - (e) Compliance with the special provisions pertaining to pharmacy services.
 - (f) The adequacy of beneficiary notices provided by state officials and their contractors.
 - (g) Procedures to monitor compliance with requirements for the public posting of notices informing beneficiaries of the rights and protections incorporated in this order.
 - (h) Address other selected areas as considered necessary.
 - (i) Quarterly reports through September 30, 2001, have been completed and the report for the quarter ending December 31, 2001, is nearing completion.
- The Division of State Audit continues to serve as staff to the TennCare Prescription Drug Utilization Committee. The committee reviews information, as it deems appropriate, concerning prescriptions made to TennCare enrollees relative to potential drug interactions, abuse of prescription drugs, or other related matters.

Performance



Deborah V. Loveless, CPA, MBA, CGFM
Assistant Director

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 2002, the performance audit section released 8

audit reports and one special report and had 14 projects in process at year-end. The Government Operations Committees held 16 public hearings on 51 entities in the year ended June 30, 2002. At these hearings, performance audit staff presented audit reports covering six entities. Another 45 entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

Audit Process

Performance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:

- Review of relevant state and federal laws, court cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and policies.
- Examination of the agency's records, files, and correspondence.
- Interviews with staff of the audited agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data.
- Analysis of the agency's program data, performance measures, and reported results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with significant legal and administrative requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency's legislative mandate.

Results of Audits

The following are summaries of the results of the eight audit reports and one special report released during the year ended June 30, 2002.*

*Findings repeated from prior audits are marked with an asterisk.

Board of Probation and Parole

June 2001

The Board Collected Only 53% of Probation Fees and Only 42% of Parolee Fees Because of Data System Inadequacies and Because Officers Did Not Enforce Requirements

Any person placed on probation or parole is required to pay a \$15 per month supervision fee and \$30 per month to the criminal injuries compensation fund, unless exempted. The payment collection system and offender database have weaknesses that cause offender records to be unreliable. Also, probation and parole officers may not be taking the necessary steps to enforce collection.

Field Officers Are Not Performing Required Supervisory Activities According to Standards

Standards for field supervision specify the type and frequency of contacts that must occur between the probation and parole officer and the offender. Officers did not always make face-to-face contacts, home visits, and arrest record checks, or conduct drug tests and risk assessments required by the standards. Adequate supervision increases the likelihood that the offenders will not violate the law or the terms of their probation or parole.

Only 13 of 20 Community Corrections Grantees Were Reviewed During Fiscal Year 2000

State law requires the board to “conduct an annual program evaluation of all programs once per year or as often as needed to ensure program accountability.” Seven moderate- or low-risk programs were not reviewed. Without evaluations, the board cannot ensure compliance with standards of supervision, service delivery levels, and expenditure guidelines.

Some Community Corrections Program Providers Did Not Submit Required Reports

Quarterly and monthly reports were not always submitted by community corrections programs. In addition, five of the annual reports were late. These reports provide statistical, program, and financial data to the board.

Not All Community Corrections Program Grantees Submitted Audited Financial Statements for Fiscal Year 1999

Three community corrections programs apparently did not submit the required audited financial statements to the board.

Some Board of Probation and Parole Staff Did Not Receive Required Training

Thirty percent of the board staff sampled did not receive the required 40 hours (for specialized staff) or 16 hours (for support staff) of training. Failure to meet the training requirements may affect employees’ job performance and violates the board’s policy concerning professional development.

Public Officials Were Not Notified of Parole Hearing Results Within the Statutory Time Frame

The board is required to send notice of parole hearing results to certain public officials involved in the parolee's criminal case. In 75% (17 of 23) of the cases selected, these officials were not notified within the 30-day requirement because information was sent quarterly.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: board efforts to reduce absconders and improvements needed to community corrections contracts.

Department of General Services
October 2001

The State Could Save Over \$180,000 Per Year by Building a Storage Facility for Electronic Media

The state's records management facility lacks the controlled-environment storage necessary for storing computer disks and tapes. As a result, state agencies must pay private companies for storing electronic media. The annualized cost of this storage is approximately \$258,000. The Records Management Division has determined that it would cost approximately \$200,000 to construct a 1,600 square foot climate-controlled vault. This translates to an annual cost of \$40,000 per year over five years, plus additional annual operating costs of \$35,000. No additional manpower would be required. Thus, the total annual costs for a state-owned media storage facility are estimated to be \$75,000, compared to the current expenses of \$258,000.

OBSERVATION AND COMMENT

The audit also discusses the current status, as well as the costs and benefits, of the use of personally owned vehicles for travel on state business.

Select Oversight Committee on Corrections
January 2002

CONCLUSION

Based on our review of the committee's activities and interviews with legislators and administration officials, the Select Oversight Committee on Corrections has apparently met its legislative mandate. In addition, it appears that there is a continued need for the committee. Given ongoing issues such as overcrowding, prison construction, and privatization, the General Assembly still needs a source of independent, bipartisan information and comment on correction activities and proposed legislation. The majority of those interviewed supported the committee and stated that the committee had been successful and had benefited the Department of Correction. Areas of concern cited by those interviewed included the need to improve the working relationship between the committee and the administration and problems with committee members' meeting attendance. Our review of attendance records from July 1999 to October 2001 confirmed attendance problems—for 6 of 33 meetings, the committee had insufficient attendance to meet the requirements for a quorum.

Tennessee Regulatory Authority
March 2002

The Authority Has Not Issued Written Orders in a Timely Manner Following Action by the Directors

Following a decision of the Authority directors in hearings involving regulated entities, legal staff prepare a written order, circulate it among the directors for their approval, and then send it to the Executive Secretary's office for distribution as necessary. During fiscal year 2001, 51% of the orders were issued more than 30 days after the action by the directors. For the orders issued between March 1 and March 20, 2002, 95% were issued more than 90 days after the directors' decision. Until the written order is issued, the docket cannot be closed, appeal time does not begin, and the hearing process is not over.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues that may affect the operations of the Authority: the processing of cases by the Dockets and Records Section, the terms of the directors, storage at the Old State Prison, the Do Not Call program, and the Telecommunications Devices Access Program.

Human Rights Commission
March 2002

The Commission Has Neither Processed Nor Resolved Employment Complaints in a Timely Manner*

Although the backlog of cases has been reduced since the last audit, the backlog, as of January 29, 2002, was 660—51% were at least 270 days old. The commission's failure to resolve employment discrimination charges in a timely manner diminishes the effectiveness of the commission, discourages those discriminated against from filing complaints with the commission, prevents complainants from obtaining remedies for their situations, and permits continued discriminatory practices.

The Commission Has Neither Processed Nor Resolved Housing Complaints in a Timely Manner*

Though the commission is no longer on probation with HUD and has reduced its open housing cases from 95 in October 1998 to 80 in February 2002, the completion of housing cases by the commission continues to be a concern. The 80 housing cases open as of February 8, 2002, have been open at the commission an average of 327 days.

The Commission Still Does Not Have a Formal, Written Conflict-of-Interest Policy and Annual Written Disclosure for Commissioners*

Despite previous audit findings in both performance audit reports and financial and compliance audit reports, the commission still does not have a formal, written conflict-of-interest policy and annual disclosure for commissioners. Identifying potential conflicts regularly helps to avoid questions concerning partiality and independence after a complaint has been received, after a decision is rendered, or as the commission conducts its daily business.

The Commission Cannot Document That Its Contract Investigators Hold Licenses Required by State Law

The commission's contract investigators are required by state law to be licensed in Tennessee as private investigators or attorneys. The commission could not provide documentary proof of such licensure.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: commission meeting attendance, case closure rates, employee satisfaction, and cost-benefit analyses of federal work-sharing agreements.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider amending *Tennessee Code Annotated* to require the removal of any commission member who regularly fails to attend commission meetings.

The General Assembly may wish to consider amending Section 4-21-302 through 311, *Tennessee Code Annotated*, to require the commission to close employment and housing complaints within a specified number of days, depending on whether the case resulted in a "cause" or "no cause" finding, was being mediated, or was going before an administrative law judge.

The General Assembly may wish to consider amending Section 4-21-201, *Tennessee Code Annotated*, to require the commission to have a formal, written conflict-of-interest policy and annual written disclosure for commissioners.

Human Resource Agencies and Community Action Agencies

November 2001

ANALYSIS AND CONCLUSIONS

This section of the audit includes discussions of (1) the overlap in service areas, the extent of duplication of services, agencies' administrative costs, and actions some agencies have taken to reduce duplication and/or administrative costs; (2) the extent to which agencies use outcome measures, the Results Oriented Management and Accountability (ROMA) system for measuring program outcomes, and the use of scales to help agencies better assess program performance; (3) agencies' service delivery systems as compared to a service delivery model; (4) the closing of Caney Fork Development Corporation and Upper Cumberland HRA's designation to take over Caney Fork's programs; (5) the operations of community action agencies in selected states; and (6) agencies' responses to a questionnaire concerning Title VI activities.

PROGRAMS AND ASSESSMENT OF SERVICE DELIVERY

This section includes a description of some of the programs operated by the agencies and an assessment of service delivery within those programs, using the service delivery model described in the Analysis and Conclusions section. The programs included in this section are the

Community Services Block Grant Program, Energy Assistance Programs, Aging Programs, the Child Care Broker Program, the Registered Family Homes Program, the Head Start Program, the Emergency Food Assistance Program, Housing Programs, Workforce Investment Programs, Community Corrections Programs, and Misdemeanor Probation Programs.

FINDINGS

Five Human Resource Agencies Have Board Structures That Are Not in Compliance with Community Services Block Grant Requirements

As of December 2000, five of the state's Community Services Block Grant (CSBG) recipient agencies were not in compliance with the tripartite board structure required by the federal CSBG legislation. (According to the legislation, any public nonprofit organization that receives CSBG funding is to ensure that no less than one-third of its board members are representatives of the low-income individuals served who reside in the area and are able to actively participate in the development, planning, implementation, and evaluation of agency programs.) Four of the five agencies were "grandfathered in" as eligible CSBG entities in the early 1980s, because they were providing community services at that time. The Governor named the fifth agency an eligible entity effective July 1, 2000.

Client Monitoring Systems Used by the HRAs and CAAs Are Extremely Fragmented

The lack of integration limits the agencies' abilities to track clients across programs and to provide intensive case management services. In addition, client-monitoring systems lack the ability to capture instances of dual participation. Because agencies do not reconcile client information from counties in their service areas, they cannot determine if a client or household participates in the same program in more than one county.

HRAs and CAAs Do Not Have Agency-wide Strategic Plans

Tennessee's HRAs and CAAs offer numerous programs, ranging from energy assistance to community corrections. While each program serves the mission of an agency, the programs are operated independently of one another. The agencies do not have agency-wide strategic plans that incorporate and integrate programs for the benefit of the client and the community. Without a strategic plan, agencies may fail to identify gaps in service delivery and/or areas for improvement.

Two Agencies Did Not Have Updated Cost Allocation Plans

There appears to be no requirement that the plans be updated annually, unless the allocation methods approved become outdated as a result of organizational or other changes. In such cases, it is the agency's responsibility to submit for approval by its primary grantor agency an amended allocation plan that accurately reflects the agency's current allocation method. In two cases, however, we found that the agencies'

cost allocation plans did not appear to have been updated for years, even though their allocation methods had changed.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider working with the existing HRAs and CAAs to reduce overlap in some service areas. This reduction could be accomplished by combining agencies (as was done in the southern part of the state in the 1980s), by terminating some agencies, or through administrative agreements whereby agencies share administrative staff, office space, etc. Any such actions should be taken in consultation with state and local officials, as well as with agency clients. Federal funding agencies should also be consulted to ensure that no actions are taken that threaten federal funding or conflict with federal funding requirements.

The General Assembly may wish to consider consulting federal, state, and local officials, as well as agencies and their clients to determine whether a change in the service delivery system's focus is needed. Specifically, the question is whether it would be in the best interest of local communities and their citizens to divert some funds currently spent on direct client services in order to improve agency and community-wide planning, case management, and development of client monitoring and tracking systems. Another question to consider is whether some of the money currently spent on short-term services (e.g., emergency services) should gradually be diverted to more intensive, long-term services focused on helping clients achieve and maintain self-sufficiency.

Considering that five of the state's nine human resource agencies receive Community Services Block Grant funding, the General Assembly may wish to consider adjusting the board membership requirements of the human resource agencies to bring them into compliance with the board membership requirements of the Community Services Block Grant. For the four HRAs not receiving CSBG funding, such an adjustment would recognize the need for client input and participation in agency decision-making.

Special Investigations and Information Systems



**Glen McKay, Ph.D., MBA, CIA, CFE, CISA, CGFM,
Assistant Director**

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The Special Investigations Section gathers information and evidence resulting in prosecutions and recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, Tennessee's Office of the Attorney General, the Office of the United States Attorney General, and the Tennessee Bureau of Investigation.

Investigative reviews are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the fiscal year ended June 30, 2002, ranged from embezzlement of public funds to abuse of public resources. Investigations were completed on matters at the state level as well as matters at the local level. Investigators often found that losses were incurred as a result of weak internal control or ineffective management.

Our investigative reviews resulted in the recovery of \$96,088 during fiscal year 2002. Improper activities exposed during fiscal year 2002 resulted in five indictments. As a result of the exposure of their activities, one state employee and two other individuals were terminated from employment, and one state and one county employee resigned.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. Periodicals throughout Tennessee publish information to alert citizens to the hotline and encourage them to report wasteful,

inefficient, or fraudulent activities. In addition, agencies receiving community grant funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 8,613 calls, including 559 calls between July 1, 2001, and June 30, 2002. Of the 559 calls, 196 concerned allegations of fraud, waste, or abuse. The substantive calls—those relating to fraud, waste, or abuse—concerned a wide range of entities, including municipalities, counties, state agencies and departments, and federal agencies and departments. A more detailed analysis is below. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program.

Of the 200 calls referred for action, responses have been received on 133, and these are considered closed. The remaining 67 continue to be considered open.

The remaining 359 calls have not been acted on because they were either repeat calls or were not relevant to the purpose of the hotline. Calls in the latter group include wrong numbers, hang-ups, general inquiries about the hotline, and requests for service provided by other agencies, such as tax assistance. Where applicable, the callers are referred to the appropriate agency or department that can provide assistance.

Results of Hotline Calls

The following are summaries of the results of the hotline calls upon which corrective action was taken by the subject agency for the year ended June 30, 2002.

Agriculture–Improper Gratuities

An employee admitted to receiving a gift but stated that it had happened once several years ago, that he did not solicit the gift, and that the gift did not influence his work. Management verbally reprimanded the employee and reminded the employee that such gifts are prohibited.

County Audit–Double Entry

The caller alleged the county budget contained a double entry. Review revealed a typographical error in the budget listed in the newspaper. The county executive verified it as a typographical error.

Environment and Conservation–Sewage Discharge

The caller alleged inappropriate sewage discharge. Review confirmed that a property owner was improperly draining sewage directly into the ground and not into a septic system. The owner was given a Notice of Violation. Subsequent review determined appropriate corrective action had been taken by the owner.

Health Services–Client Struck by Employee	The caller alleged an employee of an adolescent treatment center struck a client of the center. Review discovered that the client struck the employee and that the employee retaliated. Agency management took disciplinary action against employee in the form of a written warning placed in the employee’s personnel file. Review recommended that the employee attend Non-violent Crisis Intervention training again and anger management classes.
Health Services–Failure to Check-in Patients Timely	The caller alleged the health department failed to timely check-in the caller. Review revealed the caller had an appointment with the health department and department staff did not return from lunch in time to check patient in at the appointment time. The department reminded staff of the importance of staying on schedule to the extent possible.
Health Services–Inconsistent Employee Treatment	The caller alleged the employer was requiring an employee to submit documentation for sick leave but was not requiring other employees to provide documentation for their sick leave. Review determined that some employees did not have to provide documentation for sick leave. Review recommended that the employer apply a consistent standard of documentation for all employees.
Health Services–Lack of Information on Overseas Immunizations	Review revealed department staff may not be providing the public with the most complete information possible. New guidance for information on international travel was distributed on February 1, 2002.
Health Services–Rude Employee	The caller alleged rude treatment during a walk-in visit. The director of the facility volunteered to write a letter of apology to the complainant.
Health Services–Rude Employee	The caller alleged rude treatment and a failure of employees to wear name badges. Department and agency management reminded staff of the importance of treating patients in a courteous, helpful manner. Employees were also reminded to wear name badges at all times.
Health Services–Rude Employee	The caller alleged rude treatment and difficulty in getting through to the agency on the telephone. A staff meeting was held to review patient education, handling telephone requests, and to review clinic policies. There are plans to install a new telephone system to help accommodate the volume of calls.
Health Services–Rude Employee	The caller alleged a health department employee treated the caller in an unprofessional manner. The employee’s interaction with clients will be monitored closely, and problems will be addressed in reviews and evaluations.
Health Services–Rude Employee	The caller alleged a clinic employee was rude. The employee was issued a written reprimand and recommended to seek counseling through the Employee Assistance Program.
Health Services–Understaffed Facility	The caller alleged understaffing at a mental health facility. Review determined the caller’s complaint had merit. At the time of review, there

was no Director of Personnel and no Assistant Director of Personnel. Review determined that management should take immediate steps to fill the vacant Director of Personnel Position held on an interim basis by the Assistant Superintendent.

Health Services–Understaffed Facility	The caller alleged understaffing at the health department. Review revealed the office had lost 12 of 17 staff members. Remaining employees were unable to maintain the prior level of services and fell behind. Services have been moved to a new department that has adequate staffing.
Human Services–Food Stamp Fraud	The caller alleged an individual was improperly receiving food stamps. Review revealed the allegation was correct. An overpayment claim was prepared by the department and is in the process of being collected.
Human Services–Unavailability of Agency Coordinator	The caller alleged the coordinator of the agency was out of the office and unavailable for long periods of time, delaying the provision of assistance to the caller. Review determined that the job required the coordinator to be out of the office periodically. Department staff reminded the coordinator of the importance of maintaining regular office hours, particularly when the coordinator was the only employee at the agency.
Labor and Workforce Development–Child Labor	The caller alleged an employee of a hotel was bringing underaged children to work and the employer was allowing children to work. The hotel manager stated that he allowed employees to bring children to work when no sitter could be found, but children were to stay in the break room. He stated that he would no longer allow employees’ children to be present during work hours.
Mental Retardation Services–Poor Working Conditions	The caller alleged poor working conditions in the Adult Habilitation Program. Review revealed that the air conditioning unit was not working and that the temperature was too high for the clients to work. The agency was cited for noncompliance and provided with a plan of correction. The agency installed a new air conditioning unit, and the problem was corrected.
Municipal Audit–Conflict of Interest	The caller alleged a city commissioner had a direct conflict of interest. Review revealed a potential conflict of interest, and the matter was referred to the appropriate district attorney’s office.
Transportation–Unauthorized Signage	The caller alleged two businesses were located on the right-of-way on a state road. Review determined that neither business was located on the right-of-way, but there was unauthorized signage on the right-of-way. The department made the businesses remove the signs.

Table 1: Analysis of Substantive Hotline Calls

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
<u>Local Government</u>			
Municipal Audit	12	6	6
District Attorney	1	0	1
Public Defender	1	1	0
<u>County Government</u>			
County Audit	6	5	1
<u>State Government</u>			
Environment and Conservation	9	7	2
Health, Office of Health Services	50	49	1
Children’s Services	10	3	7
Health	2	0	2
Human Services	31	15	16
Health Related Boards	2	0	2
Education	11	5	6
Revenue	3	2	1
Board of Professional Responsibility	2	1	1
State Audit	3	2	1
Commerce and Insurance	2	2	0
Labor and Workforce Development	6	3	3
Probation and Parole	3	2	1
Transportation	3	2	1
Secretary of State	2	1	1
Mental Health and Developmental Disabilities	6	5	1
Property Assessments	1	1	0
General Services	4	4	0
Tourist Development	1	1	0
Correction	2	2	0
Tennessee Corrections Institute	2	2	0
Board of Regents	1	1	0
Human Rights Commission	1	1	0
Safety	1	1	0
Military	1	1	0
Tennessee Housing Development Agency	1	1	0
Agriculture	1	1	0
First Tennessee Human Resource Agency	1	1	0
<u>Federal Government</u>			
Health and Human Services	6	0	6
Bureau of Prisons	1	0	1
Internal Revenue Service	1	0	1
Housing and Urban Development	6	4	2
Labor	2	1	1
Veteran’s Affairs	1	0	1
USDA Food Stamps	1	0	1
Total	200	133	67

Special Investigations

The Special Investigations Section's contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of our special investigative reviews, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least deter, future occurrences of fraud, waste, or abuse.

Results of Investigations

The following are summaries of the results of the special reports released during the year ended June 30, 2002.

**Tennessee Victims' Coalition
Board of Directors –
Review of Alleged Improper
Conduct by Chairperson**

February 2002

On August 29, 2001, Ms. Joy Nicholson contacted our office regarding improper conduct by Ms. Elizabeth Riley, the former chairperson for the Tennessee Victims' Coalition. Ms. Nicholson's father, Mr. William Hardy Ralls, was a terminally ill cancer patient in the Manchester Health Care Center nursing home in Manchester, Tennessee. He entered the nursing home in November 2000, and died on May 21, 2001.

Our review disclosed that Ms. Riley, acting in her official capacity as the chairperson of the Tennessee Victims' Coalition, improperly involved herself in a family dispute between two daughters and the sister of Mr. Ralls.

Specifically, Ms. Riley participated with the sister in an improper scheme to remove Mr. Ralls from his nursing home; improperly attempted to obtain his confidential medical records from the nursing home; and improperly interfered in his funeral arrangements after he had died. Moreover, Ms. Riley misrepresented her role in these events to the auditors when she was asked to provide an explanation of her activities.

During our review, Mr. Ed Lake, assistant commissioner for adult and family services in the Tennessee Department of Human Services, provided our office with a copy of a restraining order against Ms. Riley for a different incident that occurred prior to her involvement with Mr. Ralls. In that incident, it was alleged that Ms. Riley acted improperly when she interfered with the medical treatment of a nursing home patient. A review of that restraining order disclosed that Chancellor Irvin H. Kilcrease granted a temporary restraining order against Ms. Riley on January 5, 2000.

Our review disclosed an additional issue. In an interview, Ms. Riley stated that she was a volunteer for the coalition and was not paid for her volunteer work. However, Mr. Del Clayton, the coalition's executive director and Ms. Riley's brother, stated that \$21,000 of the \$100,000 coalition grant, which was provided through the Criminal Victims' Compensation Fund, was allocated to pay for office staff. Mr. Clayton stated that Ms. Riley was paid from the coalition's grant funds for her assistance in the coalition's offices.

Ms. Riley resigned from the coalition's board of directors effective November 30, 2001. Mr. Clayton informed us that Ms. Riley would continue her employment in her capacity as a paid office staff member.

Mr. Clayton stated that he had no knowledge, before or after the incidents occurred, of Ms. Riley's actions, which included assisting Ms. Ross in removing Mr. Ralls from the nursing home, requesting Mr. Ralls' confidential records, and interfering with Mr. Ralls' funeral arrangements.

Since July 2002, the Tennessee Victims' Coalition no longer receives the \$100,000 state grant from the Criminal Victims' Compensation Fund.

**Department of Finance and
Administration, Division of
Insurance Administration –
Falsification of a State
Insurance Form and
Subsequent Submission of
Improper Claims on Behalf
of an Ineligible Recipient**
April 2002

This report was redacted to comply with an order of expungement.

Information Systems

The Information Systems (IS) section provides three basic services: data retrieval, IS systems review, and computer forensic analysis.

Data Retrieval

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations. Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

The IS section develops automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually. To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL), data analysis and reporting software. ACL enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

Information Systems Review

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The IS staff review the general and application controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards. The IS section also conducts Data Reliability Reviews on both financial

and program administration systems. These reviews are designed to assess the reliability of key elements of the application's computer processed data, assess the implementation and effectiveness of user control procedures (reconciliations and manual checks to ensure that data is complete and accurate), and to assess the manual follow-up procedures (procedures in place for error correction and review). The procedures conducted are based on the GAO's supplement to *Government Auditing Standards, Assessing the Reliability of Computer-Processed Data*, and the AICPA's *Audit Guide, Consideration of Internal Control in a Financial Statement Audit*.

Computer Forensic Analysis

The IS section has recently implemented an initiative in the area of computer forensic analysis. Evidence of fraud and abuse may be found on subjects' computers, and the IS section works in support of the Investigation section to acquire, identify, and obtain this evidence. The section utilizes specialized software and hardware to recover evidence of official misconduct by state employees and in support of civil or criminal action against persons or entities engaging in illegal activities resulting in damages to the state.

Developments

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on computer-assisted audit techniques, specialized audit software, auditing automated financial management systems, and computer forensic investigation techniques. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.

In a new initiative, the IS section is developing a computer network laboratory to assist in the development and performance of network vulnerability assessments to help ensure the security of state computer systems and data.

Legislative Liaison

The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

Analysis of Expenditures and Positions and Selected Fiscal Data, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

County-by-County Analysis consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. *County-by-County Analysis* has been compiled each year since 1977.

Division of County Audit



Richard V. Norment
CIA, CGFM
Assistant to the Comptroller



Arthur L. Alexander, CGFM
Assistant Director
Financial and Compliance,
Contract Audits, & CCIP Reviews

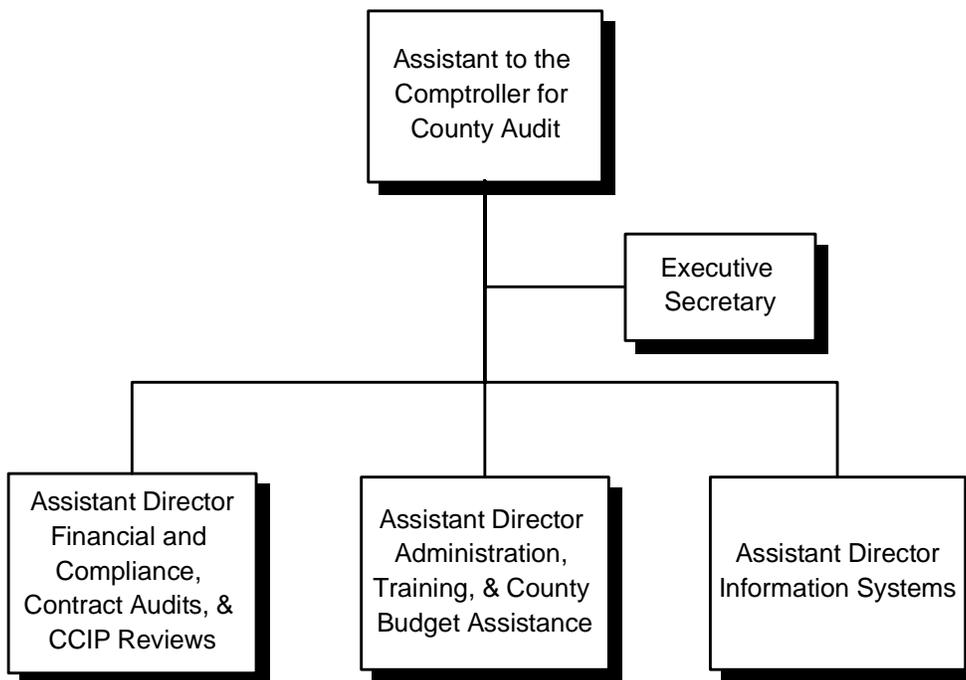


Bob Powell, CFE, CGFM
Assistant Director
Administration, Training, & County
Budget Assistance



Jim Arnette
CISA, CGFM, CCP
Assistant Director
Information Systems

Division of County Audit



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

Financial and Compliance

The division presently conducts audits in 87 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

Contract Audits

In the remaining eight counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan that is updated annually. Typically, the division annually reviews working papers prepared by certified public accountants in two of the counties.

The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

Budgets/Financial Assistance Services

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration and interpretation of laws, as well as answering questions on various local governmental matters. Technical assistance also is provided to counties in the design and installation of accounting systems, in the maintenance of other accounting records, and in the preparation of annual operating budgets.

Scope of Activity

Post-Audit of County Governments

The Division of County Audit conducted audits in 87 of the state's 95 counties during the 2001-02 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	Circuit Court Clerk
County Executive	General Sessions Court Clerk
Department of Education	Chancery Court Clerk and Master
Department of Highways	Register
County Clerk	Sheriff

The audits of all offices were for the year ended June 30, 2001.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

Information System Review

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for conducting reviews of those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and six IS auditors, who are assigned to different areas of the state.

An IS systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting and information systems. Findings resulting from an IS review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The IS findings also may be included in the county's comprehensive annual financial report.

IS systems reviews were conducted in 40 counties during the year ended June 30, 2002. The division anticipates that IS reviews will be conducted in 52 counties during the year ending June 30, 2003.

Budget Assistance

Several counties request the division's assistance in preparing their annual operating budgets. This technical assistance normally requires five to ten working days. The division provided budget assistance to 44 counties during 2002.

Monitoring and Review of Contract Audits

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of eight county governments during the next four years. The audits of Knox and Davidson Counties were monitored for the year ended June 30, 2001, and the audits of Hamilton and Hamblen Counties will be monitored for the year ended June 30, 2002.

The division reviewed 290 audit reports for the year ended June 30, 2001, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 295 such reports for the year ended June 30, 2002.

Reviews of Funds Administered by District Attorneys General

During 2002, the division conducted reviews of District Attorney General Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 2000, through June 30, 2001. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

Reviews of County Correctional Incentive Program (CCIP)

Tennessee Code Annotated, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county’s “reasonable allowable cost” to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county’s financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 19 detention facilities during the 2001-02 audit year. As a result of the reviews, it was determined that the state had underpaid \$140,673 for nine facilities and overpaid \$2,391 for two facilities. The reviews of nine facilities resulted in no over- or underpayments. The record-keeping system for two facilities did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

Financial and Compliance Audit Process

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity’s existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws.

- Obtains management’s representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.
- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

Results of Audits and Reviews

Financial and Compliance Audits

Audits of financial transactions for the year ended June 30, 2001, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Coffee County Sheriff	\$16,729
Dyer County Clerk	1,374
Greene County School Department	2,172
Haywood County Sheriff	2,838
Humphreys County General Sessions Court Clerk	29,631
Lewis County Sheriff	575
Montgomery County Clerk	11,052
Morgan County Sheriff	533
Polk County Circuit Court Clerk	709
Sevier County Clerk	7,799
Warren County Trustee	256
White County Sheriff	1,200

The audits conducted by this division disclosed fund deficits of \$112,377,605 in 69 governmental fund accounts in 45 counties. These audits also reflected fund deficits totaling \$14,272,135 in 11 enterprise funds and 4 internal service fund accounts in 15 counties.

The division’s examination of offices and departments in 87 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (59)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (81)
- Fund expenditures exceeded appropriations approved by the local governing body. (13)

- Purchasing procedures were not in accordance with controlling statutes. (33)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (16)
- Drug control funds were not administered in compliance with statutory provisions. (13)
- Funds were not deposited within three days of receipt, as required by state law. (30)
- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (5)
- Loans, notes, or lease-purchase agreements were not approved by the County Commission and/or director of Local Finance. (14)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (9)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (44)
- Deficiencies occurred in accounting/recordkeeping. (77)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (80)
- Purchase orders were not used or were not issued properly in the purchasing process. (45)
- The Sheriff's Office had deficiencies in prisoner booking procedures. (8)

Some of the specific findings disclosed in audits and reviews during the past year are summarized on the following pages.

Bedford County General Sessions Court Clerk
For the Year Ended June 30, 2001

Probation Services of Tennessee, Inc. (PST), a private probation company operated in Bedford and Cannon Counties, stated that they had approximately \$15,000 of county fines and court costs due the Bedford County General Sessions Court. However, our examination disclosed that PST actually owed the county \$83,127. Our examination also disclosed numerous deficiencies concerning PST's operations.

**Claiborne County Sheriff
and County Executive**
For the Year Ended June 30, 2001

Controls over credit card purchases of the Sheriff's Department were inadequate. The sheriff reimbursed the county \$3,856.59 for charges that could not be adequately documented. In addition, the county paid an individual who worked for the Sheriff's Department by reimbursing him for meals instead of through the payroll system. When auditors inquired about these transactions, the sheriff reimbursed the county the \$3,724 paid to this individual during the year.

Coffee County Sheriff
For the Year Ended June 30, 2001

Our audit revealed a cash shortage of \$16,729.41 resulting from the office's failure to deposit or account for inmate and commissary account collections. Additional deficiencies in the operations of the inmate and commissary account related to depositing funds, maintaining accounting records, remitting commissions to the county, posting inmate refund checks to account balances, and using official duplicate deposit slips. Also, the office had deficiencies in the administration of drug control funds. Confidential funds of \$20,700 were used to pay nonconfidential expenditures, and payments to informants were not always witnessed by a second officer.

**Dickson County Director of
Schools**
For the Year Ended June 30, 2001

Auditors assisted the Tennessee Bureau of Investigation in investigating the theft of central air conditioning units from the maintenance department of the Board of Education. The maintenance director was terminated after it was found that he had installed two of the units in private residences and had given one to a maintenance employee. On November 14, 2001, the maintenance director pled guilty to one count of theft of over \$500 and two counts of theft of over \$1,000. He was sentenced to probation, community service, and restitution of \$3,744.40.

**District Attorney General,
24th Judicial District**
For the Year Ended June 30, 2001

The drug task force had a cash shortage of \$1,755. Records indicate that an agent who died on March 7, 2001, had in his possession \$1,155 of seized funds and \$600 of confidential funds, but the money could not be located. In addition, the district had deficiencies in maintaining records of equipment and evidence, vehicles that were seized may have been used for purposes other than the drug enforcement program, and adequate documentation was not on file to support purchases made from the Judicial District Drug Fund.

Haywood County Sheriff
For the Year Ended June 30, 2001

The office had a cash shortage of \$2,238.92. To cover a missing deposit, two employees deposited \$574.35 in personal funds along with \$1,031.15 from office collections that had not been receipted. In addition, checks totaling \$1,207.77 were deposited, but receipts were not issued and the checks were substituted for cash collections that had been receipted but never deposited. Because of the serious irregularities, we cannot determine if all collections were receipted and deposited. An additional finding involved an employee's use of the county's Wal-Mart purchasing card to make improper purchases of \$598.75.

Humphreys County General Sessions Court Clerk

For the Year Ended June 30, 2001

The General Sessions Court Clerk's Office had a cash shortage of \$29,630.81. A deputy clerk took unreceipted checks and/or money orders received for traffic citations and substituted them for collections that had been received in cash and receipted. To further conceal the shortage, the deputy clerk altered deposit slips. On August 30, 2001, she pled guilty to a Class C felony, was placed on probation, and deposited \$36,950.76 from personal funds to the office bank account. This payment represented \$16,467.76 of the cash shortage, \$17,327.00 for the cost of the audit, and \$3,156.00 for the cost of obtaining information from the bank. The court also ordered the deputy to pay the remaining \$13,163.05 of the cash shortage over a four-year period.

Lewis County Executive

For the Year Ended June 30, 2001

Two construction projects were not administered in compliance with state statutes and generally accepted accounting principles. Deficiencies in the courthouse elevator project included failing to follow bid requirements, using unlicensed contractors, allowing subcontractors to use the county's tax-exempt status for purchases, and failing to execute contracts. For another project, renovation of the former Genesco Building, deficiencies included failing to follow bid requirements, failing to execute contracts, allowing contractors to work with no licenses or expired licenses, failing to monitor contractors, accepting invoices without proper details, and violating the county's tax-exempt status.

McMinn County Correctional Incentive Program

For the Period July 1, 1998, through June 30, 2001

State felon days were not reported accurately. We identified 5,325 overreported felon days for the period July 1, 1998, through June 30, 2001. Because of these overreported felon days, the county was overpaid \$186,375.

Montgomery County Clerk

For the Year Ended June 30, 2001

During November 2000, the county clerk became aware of possible irregularities concerning registration transactions for two motorcycle dealerships. The county clerk conducted an internal investigation, placed an employee on administrative leave, and requested the assistance of auditors. Our review determined that when dealership employees left paperwork with the county clerk for processing, they also left signed, blank checks. The employee who processed the paperwork recorded the proper fees but wrote the checks for larger amounts, stealing a total of \$11,052.45. This scheme went undetected because the dealerships did not reconcile registration costs with their checks. The clerk terminated the employee on November 21, 2000, and on May 16, 2001, the former employee pled guilty to theft and official misconduct. She was placed on post-trial diversion, given probation, and required to pay restitution to the dealerships.

Polk County Director of Schools

For the Year Ended June 30, 2001

The General Purpose School Fund had a deficit of \$483,797, caused primarily by budgetary deficiencies. The actual fund balance was \$960,591 less than the estimated fund balance presented in the budget document to the County Commission. Also, salaries exceeded several

line-item appropriations by \$157,050, actual revenues and other sources were underestimated by \$280,844, and expenditures exceeded appropriations in 15 of 25 categories by a total of \$181,996.

Putnam County Director of Schools

For the Year Ended June 30, 2001

Several deficiencies were noted in the operations of the school-age child care program. Duties were not adequately segregated, site directors' time sheets were not maintained properly, and several deficiencies were noted in the receipt and deposit of collections. Adequate controls were not established for accounts receivable and scholarship programs. Also, irregularities at one school were not discovered and reported on a timely basis.

Scott County Road Superintendent

For the Year Ended June 30, 2001

Road Department purchases did not comply with the County Financial Management System of 1981; the Uniform Road Law; and Section 7-51-904, *Tennessee Code Annotated*. Some purchases were made without being channeled through the purchasing agent. Purchases exceeding \$5,000 were made without the solicitation of competitive bids, and lease agreements were not approved by the Board of County Commissioners.

Smith County Executive

For the Year Ended June 30, 2001

Deficiencies were noted in Ambulance Service operations. The duties of the Ambulance Service's office manager were not segregated adequately; the office manager collected and deposited funds, issued receipts, maintained the computerized billing and accounts receivable, and computed and distributed payroll checks. Instead of following County Commission policies concerning the collection of patient accounts, personnel only sent statements to patients. In addition, Ambulance Service personnel did not determine and record the accounts receivable and related amounts. Other deficiencies concerned not writing off uncollectible accounts, not depositing funds with the county trustee within three days of collection, and inadequate controls over receipts.

White County Sheriff

For the Year Ended June 30, 2001

The Sheriff's Office had a cash shortage of \$1,200 in Drug Control Funds. Office personnel had failed to provide adequate documentation to support drug control disbursements for confidential funds, and forms and reports required by the Comptroller to document the use of confidential drug funds were not maintained. In the commissary operations, prenumbered receipts were not issued, transactions were not reflected in the cash journal and reconciled with computer data, and general ledger accounts were not maintained.

**Information System
Reviews**

The following findings resulting from the information system reviews recurred in several offices or departments.

- Various software applications did not have sufficient application controls.
- Periodic system backups were not performed routinely. Furthermore, copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up procedures are mandatory to guard against operational errors and disasters.
- A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.
- Policies and procedures relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.

**County Correctional
Incentive Program (CCIP)
Reviews**

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

Division of Municipal Audit



Dennis F. Dycus, CPA, CFE, CGFM
Director

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs investigative audits of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, and municipalities.

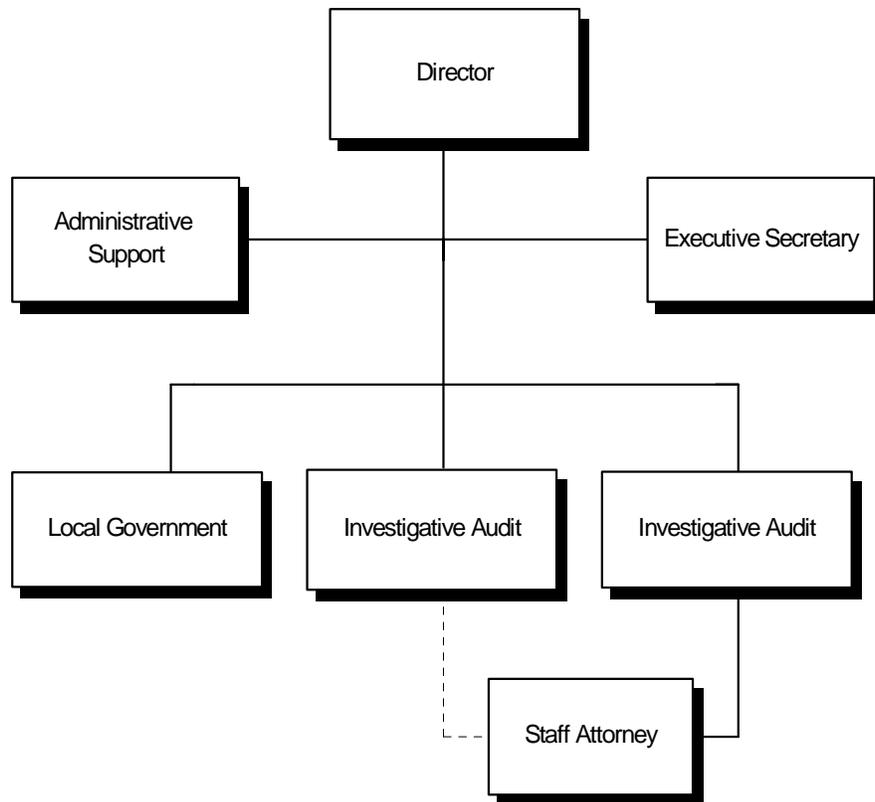
Audit Review Process

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee’s 349* municipalities, 78 quasi governmental organizations, 189 utility districts, 166 public school activity and noncentralized cafeteria funds, 89** housing authorities, and over 203 nonprofit agencies. The entities use a standard contract, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller’s designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

*Does not include 161 related municipal entities
**Does not include 3 related entities

The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm’s audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 4,250 nonprofit organizations that receive grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

Division of Municipal Audit



Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state’s Water/Wastewater Financing Board or the Utility Management Review

Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 2002, 29 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 17 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are now operating or are on their way to operating on a financially sound basis.

Investigative Audits

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Investigative audits are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each investigative audit, the Comptroller issues a report or letter presenting documented occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts investigative audits that include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the *Uniform Accounting Manual for Tennessee Utility Districts*, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Internal School Uniform Accounting Policy Manual*, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of these audits, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The audits point out to officials the importance of sound internal controls and compliance with applicable laws and regulations.

The division routinely provides technical assistance to local government officials and certified public accountants. This assistance often requires detailed research of financial accounting concepts and state and federal statutes.

Audits and Investigative Audits

For the year ended June 30, 2002, the Division of Municipal Audit performed 1,311 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. Nineteen investigative audits were released. The 19 investigative audits included 13 municipalities, 3 public schools, 1 nonprofit, and 2 utility districts. The majority of the investigative audits involved allegations of fraud, waste, and abuse and revealed weaknesses in internal controls, no controls, or potential problem areas that created an environment for fraud. During the 2002 fiscal year, investigative audits revealed losses of at least \$748,213 due to fraud. Illegal activities exposed during fiscal year 2002 resulted in 11 indictments, with a total of 86 counts. In 47 of the 86 counts, the individuals were convicted of the charged offense. One defendant was granted judicial diversion and the remaining charges are pending. Three cases are pending trial.

Results of Investigative Audits

City of Crab Orchard

Our investigative audit found that the former city recorder used a fraudulent check scheme to divert \$66,560 from the city. In addition, the former recorder was found to have used the city credit card to charge a Caribbean cruise and other personal purchases totaling \$3,031. A Cumberland County Grand Jury charged the former city recorder in a 15-count indictment related to this activity. She pled guilty to 12 of the charged counts and received a 10-year sentence on community corrections. Two conditions of her sentence were that she make full restitution to the city and that she not work for any governmental entity for the duration of the sentence. Our office was assisted in this investigation by the Cumberland County Sheriff's Department.

City of Rockwood

The former city recorder apparently misappropriated at least \$425,681 from the city, primarily by preparing unauthorized checks, in most instances having the checks cashed, and then using the cash for his personal use. The former recorder committed suicide shortly after the investigative audit began. The investigative audit revealed that the former recorder had turned over all or most of the misappropriated money to a long-time acquaintance. The Roane County Grand Jury indicted the former recorder's acquaintance on 21 counts of theft. In addition, an associate of the acquaintance was indicted on one count of theft. Finally, our audit revealed that the former director of parks and recreation received unauthorized checks totaling \$12,405. The Roane County Grand Jury indicted the former parks and recreation director on 4 counts of official misconduct. All three people charged are currently awaiting trial. Our office was assisted in this investigation by the Tennessee Bureau of Investigation and the Rockwood Police Department.

South Cumberland Utility District

Our investigative audit revealed that the former district general manager used several schemes to divert a total of \$111,075.22 from the district during the 18 months ended June 30, 2001. These schemes included taking cash collections for personal use, forging district

checks made payable to herself, and charging personal purchases on the district credit card. The former general manager told the district's board of commissioners that she had taken some funds from the district in March 2001. However, the commissioners chose not to suspend her or terminate her at that time. She was allowed to continue to work for the district as general manager. During the three months *after* she made her admission to the district commissioners, the former general manager diverted an additional \$22,416 in cash from the district.

The former general manager pled guilty to 14 criminal counts, including theft and forgery. She received a 13-year sentence. After completion of a 5-year prison sentence, she will be placed on probation for an additional 8 years. The former general manager was also ordered to make full restitution to the utility district and is prohibited from working for a governmental agency during the duration of her probation. Our office was assisted in this investigation by the Tennessee Bureau of Investigation.

**Turnbull–White Bluff
Utility District**

Over an approximately six-year period ended May 2001, the former office manager diverted tap fees, line extension fees, and other miscellaneous fees of at least \$57,213 for her own personal use. She pled guilty to three criminal counts, and the court sentenced her to an effective sentence of ten years. The court granted her probation conditioned on her making full restitution to the utility district. She is also barred from working for any governmental entity in a capacity where she has access to or control over the collection or disbursement of money. Our office was assisted in this investigation by the Tennessee Bureau of Investigation.

**Maryville High School–
Blount County Schools**

A joint investigation conducted by the Maryville Police Department and our office revealed that on at least 17 separate occasions, the principal misappropriated a total amount of \$1,205 from the cash box at the high school. The investigation also revealed a shortage in expected collections related to athletic concession operations totaling over \$22,000 during the 20-month period from July 1, 2000, through February 15, 2002. The principal entered a “best interest” guilty plea to 17 counts of theft. He received 17 concurrent sentences of 11 months and 29 days, and was granted probation. He was ordered to pay full restitution and perform 100 hours of community service.

Updates

City of Friendsville

The former city recorder was indicted and found guilty on two criminal counts related to the \$54,351 embezzlement at the city. She is currently awaiting sentencing.

**Clarksville–Montgomery
County Community Action
Agency**

A former intake clerk at the agency was indicted on 16 counts related to the \$31,860 embezzlement at the not-for-profit agency. She is awaiting trial on these charges.

Appendix

Recognition for Excellence In Financial Reporting

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 2001.

State of Tennessee
Anderson County
Blount County
Bristol Tennessee Electric System
City of Athens
City of Bartlett
City of Brentwood
City of Chattanooga
City of Cleveland
City of Columbia
City of Franklin
City of Germantown
City of Hendersonville
City of Johnson City
City of Kingsport
City of Knoxville
City of Lake City
City of LaVergne
City of Maryville
City of Memphis
City of Murfreesboro
City of Oak Ridge (37 awards)
City of Tullahoma
City of White House
Hamilton County
Knox County
Memphis–Shelby County Airport Authority
Metropolitan Government of Nashville and Davidson
County
Metropolitan Knoxville Airport Authority
Metropolitan Nashville Airport
Morristown Utility Commission
Rutherford County
Shelby County
Tennessee Consolidated Retirement System
Town of Collierville
Town of Farragut
Town of Livingston
Town of Smyrna
Tri-Cities Airport Commission

Professional Recognition

During the year ended June 30, 2002, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), and Certified Professional Secretary (CPS).

Jeff Bailey	County Audit	CFE
Melissa Boaz	State Audit	CFE
Sharee Brewer	County Audit	CGFM & CFE
Marcia Bright	State Audit	CFE
Rachelle Bunch	County Audit	CFE
Bridget Carver	State Audit	CFE
Donna Crutcher	State Audit	CFE
Melinda Daniel	County Audit	CFE
Rhonda Davis	County Audit	CFE
Cindy Dunn	State Audit	CFE
Jerry Durham	County Audit	CFE
Treesie Farmer	State Audit	CFE
Theresa Gervin	County Audit	CPS
Shanta Griffin	State Audit	CFE
Eugene Hampton	County Audit	CGFM
LaToya Hampton	State Audit	CFE
Gregg Hawkins	State Audit	CFE
Amy Hembree	County Audit	CPA
Eric Hyder	State Audit	CPA & CFE
Donna Jewell	State Audit	CFE
Wilma Johnston	County Audit	CFE
Temecha Jones	State Audit	CFE
Joe Kimery	County Audit	CFE
Melissa Lahue	State Audit	CFE
Jacqueline Laws	State Audit	CFE
Tuan Le	State Audit	CFE
Harry Lee	State Audit	CFE
Derek Martin	State Audit	CFE
Sophia Massey	State Audit	CFE
Roshena May	State Audit	CFE
Jay Moeck	State Audit	CFE
Bradley Moore	State Audit	CFE
Beth Pendergrass	State Audit	CFE
Karen Phillips	State Audit	CPA
Lamont Price	State Audit	CFE
Robyn Probus	State Audit	CGFM
Kelly Quinn	County Audit	CFE
Barbara Ragan	State Audit	CFE
Steve Reeder	County Audit	CFE
Lewis Robbins	Municipal Audit	CPA
Kim Spencer	State Audit	CFE
David Sturtevant	County Audit	CFE
Tammy Thompson	State Audit	CFE
Rebecca Troyani	State Audit	CPA & CFE
Inger Tyree	State Audit	CFE
Stephen Velie	State Audit	CPA

Lee Ann West	County Audit	CGFM
Kent White	County Audit	CFE
Britt Wood	State Audit	CPA & CFE
Sonja Yarbrough	State Audit	CFE

Professional Certification

The department is proud of all its staff who have received professional certifications.

Certified Public Accountant

Division of State Audit

Katherine Anderson	Teresa Kennedy
Ron Anderson	Herb Kraycirik
Mason Ball	Tuan Le
Catherine Balthrop	Deborah Loveless
Elizabeth Birchett	Derek Martin
Debra Bloomingburg	Sammie Maxwell
Gerry Boaz	Jay Moeck
Melissa Boaz	Steve Phillips
Walter Bond	Chuck Richardson
Charles Bridges	Julie Rogers
Edward Burr	Brent Rumbley
Mary Cole	Joseph Schussler
Donna Crutcher	Suzanne Smotherman
Michael Edwards	Scarlet Sneed
Laura Fugate	Kimberly Spencer
William Hancock	Chas Taplin
Gregg Hawkins	Kandi Thomas
Arthur Hayes	Clare Tucker
Shirley Henry	Stephen Velie
Teresa Hensley	Wendell Voss
Marcia Holman	Patricia Wakefield
Bob Hunter	Carla Wayman
Eric Hyder	Barbara White
Aaron Jewell	Dan Willis
Donna Jewell	Britt Wood

Division of County Audit

Penny Austin	Michael Hulme
Gene Autry	Wilma Johnston
Jeff Bailey	Joe Kimery
Nolan Bradford	Kelley McNeal
Sharee Brewer	Jan Page
Brad Burke	Gerald Poston
Bryan Burklin	Gary Ramsey
Melinda Daniel	Steve Reeder
Jerry Durham	Anita Scarlett
Marie Elliott	Tim Stansell
Michael Ford	David Sturtevant
Amy Hembree	Lester Tackett
Kevin Huffman	Christy Tennant

Mark Treece
Clifford Tucker
Andrew Way

Kent White
Daniel Wilson
Greg Worley

Division of Municipal Audit

Robert Allen
Rene Brison
Rebecca Bush
Bill Case
Dennis Dycus
Iris Haby
Philip Job

Greg Lawrence
Michael Mayhan
Sheila Reed
Lewis Robbins
Jean Suh
Elaine Swyers

Certified Fraud Examiner

Division of State Audit

Mason Ball
Melissa Boaz
Bridget Carver
Tiffany Cherry
Mike Cole
Donna Crutcher
Melinda Crutchfield
Treesie Farmer
Jonathan Gebhart
Shanta Griffin
LaToya Hampton
William Hancock
Drew Hawkins
Gregg Hawkins
Arthur Hayes
Eric Hyder
Aaron Jewell
Donna Jewell
Temecha Jones
Trey King
Melissa Lahue
Tuan Le
Harry Lee
Derek Martin

Sophia Massey
Roshena May
Mary McCalip
Bob McCloud
Glen McKay
Jay Moeck
Beth Pendergrass
Lori Pendley
Steve Phillips
Scott Price
Robyn Probus
Barbara Ragan
Brent Rumbley
Kim Spencer
Chas Taplin
Tammy Thompson
Judy Tribble
Rebecca Troyani
Clare Tucker
Helen Vose
Clementine Williams
Britt Wood
David Wright
Sonja Yarbrough

Division of County Audit

Jeff Bailey
Sharee Brewer
Rachelle Bunch
Melinda Daniel
Rhonda Davis
Jerry Durham
Jerry Gallemore
Wilma Johnston

Joe Kimery
Bob Powell
Kelly Quinn
Steve Reeder
David Sturtevant
Larry Taylor
Kent White

Division of Municipal Audit

Robert Allen
Rene Brison
Dennis Dycus

Philip Job
Michael Mayhan
Elaine Swyers

Certified Internal Auditor

Division of State Audit

Glen McKay

Division of County Audit

Brad Burke

Richard Norment

Certified Computing Professional

Division of County Audit

Jim Arnette

Certified Information Systems Auditor

Division of State Audit

James Falbe
Karen Masters
Glen McKay
Deborah Myers
Beth Pendergrass

Bob Rice
Chuck Richardson
Julie Rogers
Brent Rumbley
Dan Willis

Division of County Audit

Jim Arnette

Certified Government Financial Manager

Division of State Audit

Dean Agouridis
Katherine Anderson
Ron Anderson
Mason Ball
Elizabeth Birchett
Debra Bloomingburg
Gerry Boaz
Charles Bridges
Edward Burr
Mary Cole
Donna Crutcher
Michael Edwards
Arthur Hayes
Shirley Henry
Teresa Hensley
Marcia Holman
Aaron Jewell
Diana Jones
Herb Kraycirik
Deborah Loveless

Derek Martin
Sammie Maxwell
Bob McCloud
Glen McKay
Beth Pendergrass
Steve Phillips
Robyn Probus
Chuck Richardson
Randy Salt
Joseph Schussler
Suzanne Smotherman
Scarlet Sneed
Kandi Thomas
Clare Tucker
Patricia Wakefield
Barbara White
Lisa Williams
Dan Willis
Dena Winningham
Gayle Wortham-Hatch

Division of County Audit

Art Alexander	Wilma Johnston
Jim Arnette	Joe Kimery
Penny Austin	Carl Lowe
Gene Autry	Kelley McNeal
Jeff Bailey	Norm Norment
Marvin Bond	Richard Norment
Nolan Bradford	Bob Powell
Sharee Brewer	Ferman Pride
Bryan Burklin	Steve Reeder
Kathi Burriss	Keith Rice
Kathy Clements	June Rogers
Melinda Daniel	David Sturtevant
Jerry Durham	Lester Tackett
Michael Ford	Larry Taylor
David Frakes	Mark Treece
Jerry Gallemore	Lee Ann West
Jodi Geary	Kent White
Eugene Hampton	Horace Wiseman
Kevin Huffman	Greg Worley
Michael Hulme	

Division of Municipal Audit

Dennis Dycus

Certified Professional Secretary

Division of State Audit

Paula Null

Division of County Audit

Sweeking Bataille	Karen Patterson
Theresa Gervin	

Division of Municipal Audit

Rosemary Dixon

**State Audits Released
During the Year Ended
June 30, 2002**

Financial and Compliance Audits

State Departments, Agencies, and Institutions

CAFR 2001
Clean Water State Revolving Fund
Comptroller of the Treasury
Council on Juvenile and Family Court Judges
Court System
Department of Agriculture
Department of Children's Services
Department of Correction
Department of Economic and Community Development
Department of Education
Department of Finance and Administration

Department of Health
Department of Human Services (FY 2000)
Department of Human Services (FY 2001)
Department of Labor and Workforce Development (FY 2000)
Department of Labor and Workforce Development (FY 2001)
Department of Mental Health and Developmental Disabilities
Department of Personnel
Department of Revenue
Department of Safety
Department of Tourist Development
Department of Transportation
Department of the Treasury
Department of Veterans' Affairs
District Public Defenders Conference
Executive Department
Local Government Group Insurance Fund
Military Department of Tennessee
Office of the Attorney General and Reporter
Single Audit 2001
State Funding Board, Sewage Treatment Facilities Fund
Teacher Group Insurance Fund
Tennessee Board of Probation and Parole
Tennessee Bureau of Investigation
Tennessee Commission on Children and Youth
Tennessee Consolidated Retirement System
Tennessee Housing Development Agency
Tennessee Human Rights Commission
Tennessee Local Development Authority
Tennessee Regulatory Authority
Tennessee Rehabilitative Initiative in Correction
Tennessee Sports Hall of Fame
Tennessee State School Bond Authority
Tennessee State Veterans' Homes Board
Tennessee Student Assistance Corporation
Tennessee Wildlife Resources Agency

**Universities, Colleges, Technical Institutes, and
Technology Centers**

Austin Peay State University
Cleveland State Community College
Columbia State Community College
Dyersburg State Community College
East Tennessee State University
Jackson State Community College
Middle Tennessee State University
Motlow State Community College
Pellissippi State Technical Community College
Shelby State Community College
State Technical Institute at Memphis
Tennessee State University
Tennessee Technological University

Tennessee Technological University Dormitory Corporation
Tennessee Technology Center at Athens
Tennessee Technology Center at Covington
Tennessee Technology Center at Crump
Tennessee Technology Center at Hartsville
Tennessee Technology Center at Hohenwald
Tennessee Technology Center at Jackson
Tennessee Technology Center at Livingston
Tennessee Technology Center at McKenzie
Tennessee Technology Center at McMinnville
Tennessee Technology Center at Memphis
Tennessee Technology Center at Murfreesboro
Tennessee Technology Center at Newbern
Tennessee Technology Center at Paris
Tennessee Technology Center at Pulaski
Tennessee Technology Center at Ripley
Tennessee Technology Center at Shelbyville
Tennessee Technology Center at Whiteville
University of Memphis
University of Tennessee
University of Tennessee Radio Station
Volunteer State Community College

Community Services Agencies

Davidson County Metropolitan Community Services Agency
East Tennessee Community Services Agency
Hamilton County Community Services Agency (FY 2000)
Hamilton County Community Services Agency (FY 2001)
Knox County Community Services Agency
Memphis-Shelby County Community Services Agency
Mid-Cumberland Community Services Agency
Northeast Community Services Agency (FY 2000)
Northeast Community Services Agency (FY 2001)
Northwest Community Services Agency (FY 2000)
Northwest Community Services Agency (FY 2001)
South Central Community Services Agency
Southeast Community Services Agency
Southwest Community Services Agency
Upper Cumberland Community Services Agency

TennCare Audits

Health Care Facilities

Appalachian Christian Village
Franklin Manor
Hillcrest Healthcare Center
May Cravath Wharton Nursing Home
Park Rest Hardin County Health Center
Perry County Nursing Home

Managed Care Organizations

John Deere Health Plan
NSAA Managed Care Encounter Data
Omnicare Health Plan, Inc.
Premier Behavioral Systems of Tennessee
Tennessee Behavioral Health, Inc.

Performance Audits

Board of Probation and Parole
Department of General Services
Human Resource Agencies and Community Action Agencies
Human Rights Commission
Select Oversight Committee on Corrections
Tennessee Regulatory Authority
Title VI Implementation Plans
Title IX Implementation Plans

Special Investigations

Department of Finance and Administration, Division of Insurance
Administration – Falsification of a State Insurance Form and
Subsequent Submission of Improper Claims on Behalf of an Ineligible
Recipient

Tennessee Victims’ Coalition Board of Directors – Review of Alleged
Improper Conduct by Chairperson

County Audits Released During the Year Ended June 30, 2002

Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 2001

Counties

Anderson	Clay	Giles
Bedford	Cocke	Grainger
Benton	Coffee	Greene
Bledsoe	Crockett	Grundy
Blount	Cumberland	Hancock
Bradley	Decatur	Hardeman
Campbell	DeKalb	Hardin
Cannon	Dickson	Hawkins
Carroll	Dyer	Haywood
Carter	Fayette	Henderson
Cheatham	Fentress	Henry
Chester	Franklin	Hickman
Claiborne	Gibson	Houston

Humphreys	Meigs	Sequatchie
Jackson	Monroe	Sevier
Jefferson	Montgomery	Smith
Johnson	Moore	Stewart
Lake	Morgan	Sullivan
Lauderdale	Obion	Tipton
Lawrence	Overton	Trousdale
Lewis	Perry	Unicoi
Lincoln	Pickett	Union
Loudon	Polk	Van Buren
Macon	Putnam	Warren
Madison	Rhea	Wayne
Marion	Roane	Weakley
Marshall	Robertson	White
Maury	Rutherford	Williamson
McNairy	Scott	Wilson

Special School Districts

Paris Special School District
McKenzie Special School District

Special Reports and Limited Reviews

Reviews of Funds Administered by the District Attorneys
General and Judicial District Drug Task Force Funds
First through the Thirty-First Judicial Districts (July 1, 2000,
through June 30, 2001)

Municipal Audit Investigative Audit Reports Released During the Year Ended June 30, 2002

Town of Mason
Town of Crab Orchard
Waynesboro Middle School-Wayne County School System
City of Kingston
City of Lakewood
Henderson County School System
Scotts Hill School
Lexington High School
Lenoir City Housing Authority
City of Rockwood
Council for Alcohol & Drug Abuse Services, Inc.
Town of Spring City
Torrey Johnson Senior Citizens Center
Turnbull-White Bluff Utility District
South Cumberland Utility District
City of Whitwell & City of Dunlap
Maryville High School & Maryville City School System
Town of Greenbrier
Town of Cornersville
Town of Henning

**Comptroller of the Treasury
Department of Audit
Schedule of Revenues, Expenditures, and Reserves
For the Years Ended June 30, 2002, and June 30, 2001**

	Year Ended June 30, 2002				Year Ended June 30, 2001			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES	\$ -	\$ -	\$ -	\$ -	\$ 7,006.28	\$ -	\$ -	\$ 7,006.28
REVENUES								
Appropriation	\$ 7,868,000.00	\$ 5,379,600.00	\$ 1,216,000.00	\$ 14,463,600.00	\$ 7,584,500.00	\$ 5,271,400.00	\$ 1,195,600.00	\$ 14,051,500.00
Departmental revenues	4,467,085.26	915,455.91	209,789.33	5,592,330.50	4,399,477.77	890,320.32	101,738.57	5,391,536.66
Total revenues	\$ 12,335,085.26	\$ 6,295,055.91	\$ 1,425,789.33	\$ 20,055,930.50	\$ 11,983,977.77	\$ 6,161,720.32	\$ 1,297,338.57	\$ 19,443,036.66
Total reserves and revenues	\$ 12,335,085.26	\$ 6,295,055.91	\$ 1,425,789.33	\$ 20,055,930.50	\$ 11,990,984.05	\$ 6,161,720.32	\$ 1,297,338.57	\$ 19,450,042.94
EXPENDITURES								
Personal services	\$ 8,335,121.13	\$ 4,350,870.28	\$ 907,571.36	\$ 13,593,562.77	\$ 8,022,627.03	\$ 4,172,064.28	\$ 848,548.22	\$ 13,043,239.53
Employee benefits	1,944,357.49	1,056,730.82	206,073.07	3,207,161.38	1,779,455.30	957,998.81	186,796.75	2,924,250.86
Total payroll	\$ 10,279,478.62	\$ 5,407,601.10	\$ 1,113,644.43	\$ 16,800,724.15	\$ 9,802,082.33	\$ 5,130,063.09	\$ 1,035,344.97	\$ 15,967,490.39
Travel	453,830.21	355,870.42	52,859.94	862,560.57	609,294.65	412,298.85	65,396.96	1,086,990.46
Printing, duplicating, and film processing	65,305.22	87,065.44	9,523.45	161,894.11	58,684.51	75,962.23	3,866.07	138,502.81
Communication and shipping costs	16,211.31	28,705.35	6,448.19	51,364.85	14,537.28	28,037.49	8,118.36	50,693.13
Maintenance, repairs, and service	36,229.00	438.87	163.57	36,831.44	7,155.00	1,064.00	164.95	8,383.95
Professional and administrative services	116,359.67	51,414.32	5,164.35	172,938.34	108,640.19	52,855.18	22,000.67	183,496.04
Supplies	19,995.19	14,764.81	5,130.39	39,890.39	48,743.46	24,138.02	3,885.72	76,767.20
Rentals and insurance	349,231.94	141,491.44	65,036.00	555,759.38	136,105.41	146,544.72	65,024.65	347,674.78
Awards and indemnities	707.52	164.71	37.77	910.00	1,220.06	-	-	1,220.06
Grants and subsidies	29,191.41	6,654.09	200.00	36,045.50	53,354.83	11,802.31	220.56	65,377.70
Billings and Records Management	72,959.62	21,780.75	7,627.29	102,367.66	87,846.51	24,835.63	9,062.71	121,744.85
Total other	\$ 1,160,021.09	\$ 708,350.20	\$ 152,190.95	\$ 2,020,562.24	\$ 1,125,581.90	\$ 777,538.43	\$ 177,730.65	\$ 2,080,850.98
Total current year	\$ 11,439,499.71	\$ 6,115,951.30	\$ 1,265,835.38	\$ 18,821,286.39	\$ 10,927,664.23	\$ 5,907,601.52	\$ 1,213,075.62	\$ 18,048,341.37
Prior-year expenditures	-	-	-	-	3,049.98	-	-	3,049.98
Total expenditures	\$ 11,439,499.71	\$ 6,115,951.30	\$ 1,265,835.38	\$ 18,821,286.39	\$ 10,930,714.21	\$ 5,907,601.52	\$ 1,213,075.62	\$ 18,051,391.35
Excess of reserves and revenues over expenditures	\$ 895,585.55	\$ 179,104.61	\$ 159,953.95	\$ 1,234,644.11	\$ 1,060,269.84	\$ 254,118.80	\$ 84,262.95	\$ 1,398,651.59
Reserves carried forward for encumbrances	\$ 3,888.50	\$ -	\$ -	\$ 3,888.50	\$ -	\$ -	\$ -	\$ -
Amount reverting	891,697.05	179,104.61	159,953.95	1,230,755.61	1,060,269.84	254,118.80	84,262.95	1,398,651.59
Total	\$ 895,585.55	\$ 179,104.61	\$ 159,953.95	\$ 1,234,644.11	\$ 1,060,269.84	\$ 254,118.80	\$ 84,262.95	\$ 1,398,651.59

NSAA

National State Auditors Association

**State of Tennessee
Comptroller of the Treasury
Department of Audit**

**Quality Control Review
For the Period July 1, 2001
through June 30, 2002**

REPORT

2401 Regency Road • Suite 302 • Lexington, Kentucky 40503 • (859) 276-1147



National State Auditors Association

August 13, 2002

John G. Morgan
Comptroller of the Treasury
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243

Dear Mr. Morgan:

We have reviewed the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period July 1, 2001 through June 30, 2002. A system of quality control encompasses the department's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the department. Our responsibility is to express an opinion on the design of the system, and the department's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the department's system of quality control for audits conducted in accordance with government auditing standards. In addition, we tested compliance with the department's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the department's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period July 1, 2001 through June 30, 2002 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Team Leader
National State Auditors Association
External Quality Control Review Team

Concurring Reviewer
National State Auditors Association
External Quality Control Review Team

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