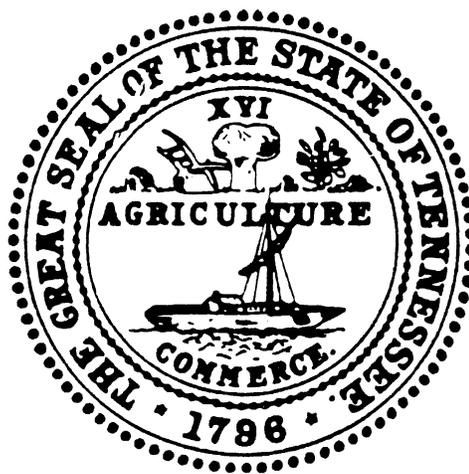


# AUDIT REPORT

Office of the Attorney General and Reporter

August 2006



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

August 1, 2006

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable William M. Barker  
Chief Justice of the Supreme Court  
307 Supreme Court Building  
Nashville, Tennessee 37243

and

The Honorable Paul G. Summers  
Attorney General and Reporter  
114 John Sevier Building  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of the Attorney General and Reporter for the period May 1, 2003, through April 30, 2006.

The review of internal control and compliance with laws and regulations resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan  
Comptroller of the Treasury

JGM/th  
06/078



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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May 18, 2006

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Office of the Attorney General and Reporter for the period May 1, 2003, through April 30, 2006.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Office of the Attorney General and Reporter's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Office of the Attorney General and Reporter is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit resulted in no audit findings. We have reported a less significant matter involving the office's internal control to management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/th

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Office of the Attorney General and Reporter**  
August 2006

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## AUDIT SCOPE

We have audited the Office of the Attorney General and Reporter for the period May 1, 2003, through April 30, 2006. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue, payment cards, equipment, tax refund reviews, and the Bankruptcy Division. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

## AUDIT FINDINGS

The audit report contains no findings.

**Financial and Compliance Audit  
Office of the Attorney General and Reporter**

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# **Financial and Compliance Audit Office of the Attorney General and Reporter**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Office of the Attorney General and Reporter. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The Attorney General is appointed by the justices of the Tennessee Supreme Court for an eight-year term and is the chief legal officer of the State of Tennessee. Through the exercise of his common law and statutory powers, the Attorney General oversees all civil litigation in which the State of Tennessee is interested, handles all appellate matters involving the state, and advises the General Assembly and all state constitutional officers and state officials. In addition, the Attorney General carries out other duties and attends to other issues of the state as required by law and public interest.

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

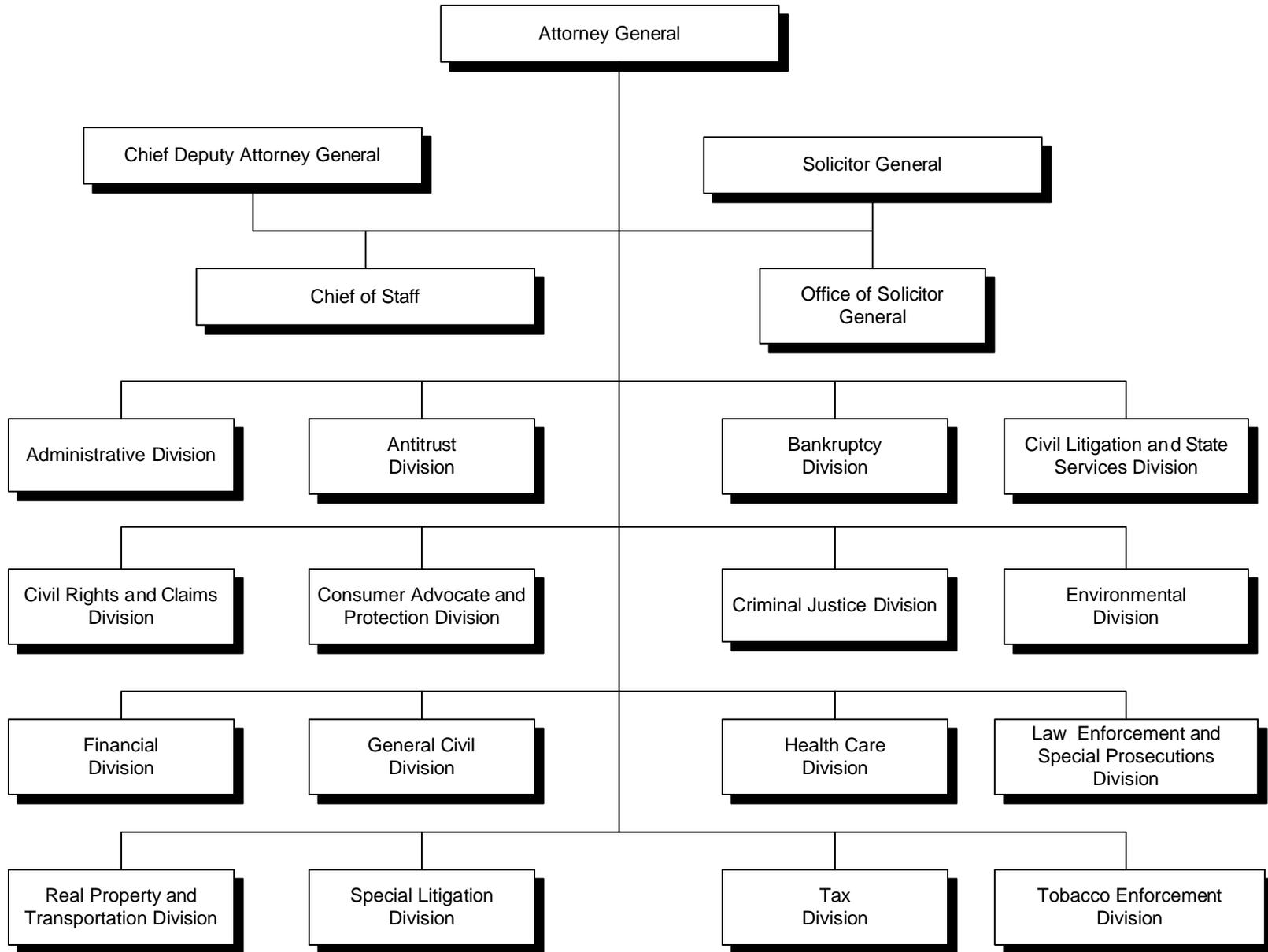
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## **AUDIT SCOPE**

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We have audited the Office of the Attorney General and Reporter for the period May 1, 2003, through April 30, 2006. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue, payment cards, equipment, tax refund reviews, and the Bankruptcy Division. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to

# Office of the Attorney General and Reporter Organization Chart



the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **REVENUE**

The objectives of our review of the controls and procedures for revenue were to determine whether

- revenue received was properly deposited in a timely manner and was correctly recorded;
- revenue records were reconciled with the State of Tennessee Accounting and Reporting System (STARS);
- billings were initiated promptly and were properly approved; and
- contingent revenue withdrawals or payments were consistent with court orders.

Key personnel were interviewed to gain an understanding of the office's procedures and controls over revenue. A nonstatistical sample of cash receipts was selected and tested to determine that revenue received was properly deposited in a timely manner, was correctly recorded, and reconciled with STARS. A nonstatistical sample of revenue transactions was selected and tested to determine that billings were initiated promptly and were properly approved. We tested all contingent revenue transactions to ensure that withdrawals or payments were consistent with court orders.

Based on our interviews, review of supporting documentation, and testwork, we determined that revenue received was properly and timely deposited and recorded, revenue records were reconciled with STARS, billings were initiated promptly and were properly approved, and contingent revenue withdrawals or payments were consistent with court orders.

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## **PAYMENT CARDS**

The objectives of our review of the controls and procedures for payment cards were to determine whether

- purchases made using payment cards were adequately supported and approved;
- payment card purchases appeared reasonable and necessary;
- payment card transaction logs were reconciled to the statements and receipts;
- payment card privileges were revoked timely for employees who were terminated; and
- payment card purchases complied with the Department of General Services' purchasing policies and procedures.

Key personnel were interviewed to gain an understanding of the office's procedures and controls over payment cards. We tested all payment card transactions and logs for adequate documentation, proper approvals, and reconciliation to the statements and receipts. We tested all payment card purchases to determine if they appeared reasonable and necessary for the conduct of state business and if they complied with the Department of General Services' purchasing policies and procedures. We reviewed evidence that terminated employees' cards had been canceled.

Based on our interviews, review of supporting documentation, and testwork, we determined that payment card purchases were adequately supported, approved, and appeared reasonable and necessary. Transaction logs were reconciled to the statements and receipts. Payment card privileges were revoked timely for employees who were terminated. Payment card purchases complied with the Department of General Services' purchasing policies and procedures.

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## **EQUIPMENT**

The objectives of our review of the controls and procedures for equipment were to determine whether

- equipment was properly accounted for in the Property of the State of Tennessee (POST) system;
- equipment purchased by or donated to the office was correctly added to POST;
- equipment was adequately safeguarded; and
- lost or stolen equipment was properly reported to the Comptroller's Office and deleted from POST.

Key personnel were interviewed to gain an understanding of the office's procedures and controls over equipment and to determine whether equipment was adequately safeguarded. A nonstatistical sample of equipment was selected and tested to determine the accuracy of the POST listing. All lost or stolen equipment items were tested to determine whether they were properly reported to the Comptroller's Office and deleted from POST.

Based on interviews, review of supporting documentation, and testwork, we determined that equipment had been properly accounted for in POST and that equipment purchased by or donated to the office had been correctly added to POST (with a minor exception). We also determined that equipment was adequately safeguarded, and items lost or stolen were properly reported to the Comptroller's Office and deleted from POST.

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## **TAX REFUND REVIEWS**

The Office of the Attorney General and Reporter reviews all state tax refunds over \$50,000 before the Department of Revenue remits payment to the taxpayer. The state is allowed a 45-day grace period from the date a taxpayer files a claim before interest begins to accrue on the refund. The objective of our review of procedures governing tax refund reviews was to determine whether the office reviewed tax refund claims in a timely manner.

Key personnel were interviewed to gain an understanding of the office's procedures and controls over tax refund reviews. A nonstatistical sample of tax refund claims was selected and tested for timeliness of review.

Based on our testwork, we determined that the Office of the Attorney General and Reporter reviewed tax refund claims in a timely manner.

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## **BANKRUPTCY DIVISION**

The Bankruptcy Division represents state agencies in bankruptcy courts across the country. In particular, it represents the state's interests by filing proofs of claims and administrative claims in bankruptcy cases where any state entity is owed a debt. The objective of our review of the procedures for bankruptcy transactions was to determine whether receipts from bankruptcies were properly recorded and given to the appropriate state agency.

Key personnel were interviewed to gain an understanding of the office's procedures and controls over bankruptcy transactions. A nonstatistical sample of bankruptcy receipts was selected and tested to determine whether receipts from bankruptcies were properly recorded and given to the appropriate state agency.

Based on our testwork, we determined that bankruptcy receipts were properly recorded and given to the appropriate state agency.

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## **OBSERVATIONS AND COMMENTS**

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

### **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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## APPENDIX

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### ALLOTMENT CODES

Attorney General and Reporter	303.01
Publication of Tennessee Reports	303.05
Special Litigation	303.08