

Department of Audit

2005 Annual Report
to the
Tennessee General Assembly



Comptroller of the Treasury, Authorization No. 307161.
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

December 29, 2005

The Honorable Phil Bredesen, 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 2005 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,

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 L. Alexander, CGFM
Director of County Audit

**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE,
CGFM**
Director of State Audit

Dennis F. Dycus, CPA, CFE, CGFM
Director of Municipal Audit

State of Tennessee

Phil Bredesen
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

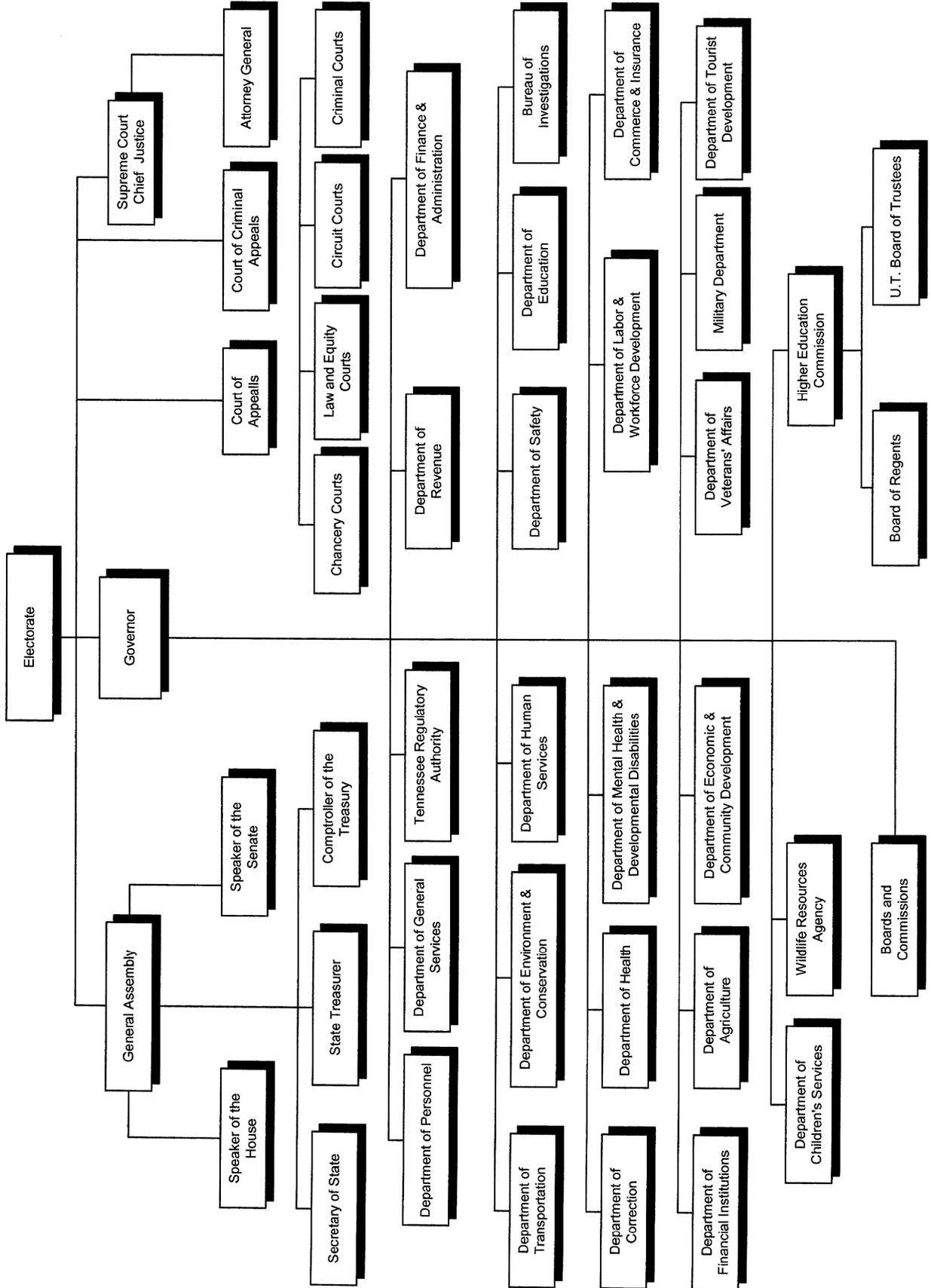
Dale Sims
State Treasurer

Paul G. Summers
Attorney General and Reporter

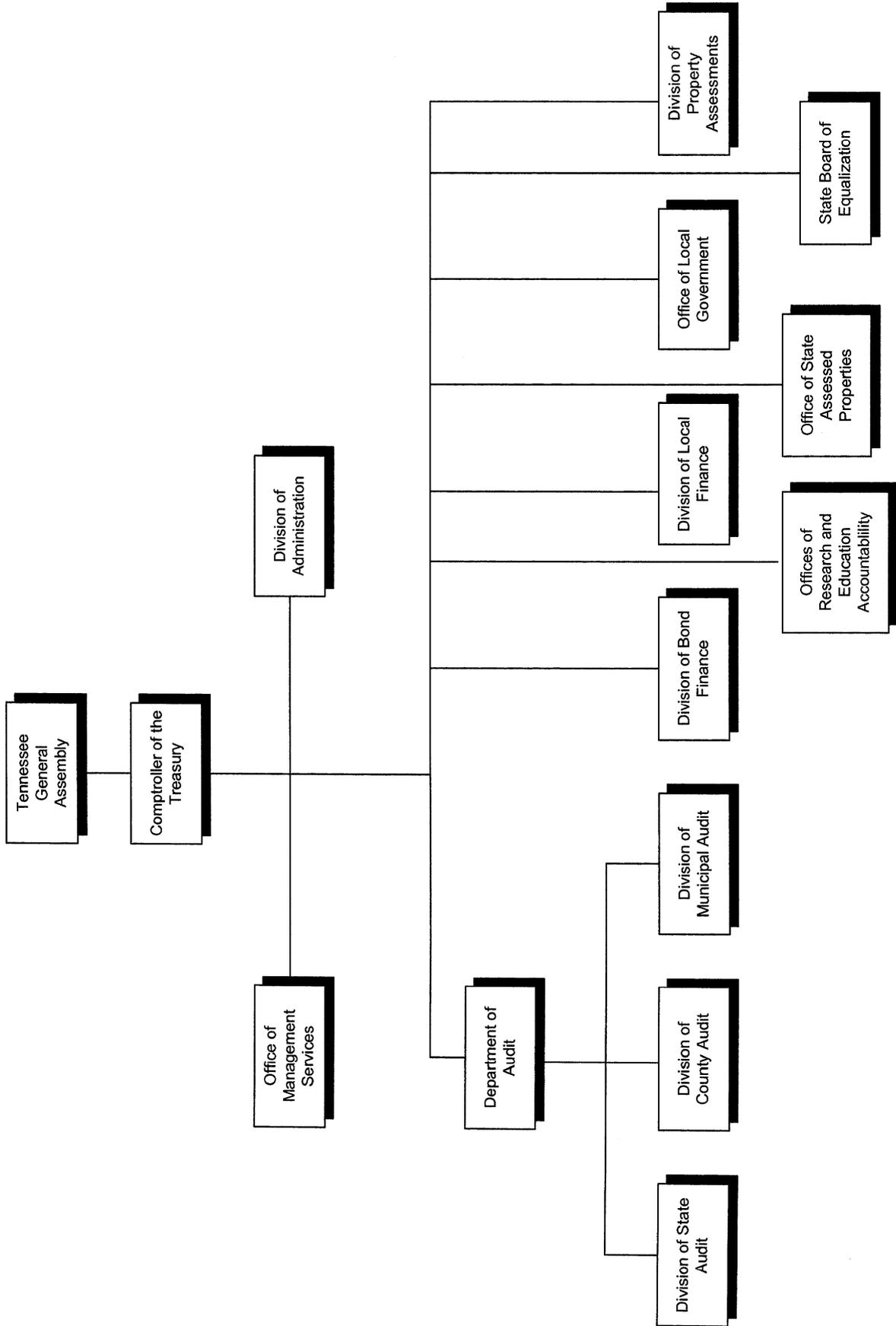
Dave Goetz
Commissioner of Finance and Administration

William M. Barker
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.

Access Improvement Project Committee
Advisory Commission on Intergovernmental Relations
Advisory Committee to Monitor Internet
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Chairs of Excellence Trust
Child Care Facilities Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Emergency Communications Board
Funding Board
Governor's Council on Health and Physical Fitness
Health Services and Development Agency
Higher Education Commission
Housing Development Agency
Industrial Development Authority
Industrial Finance Corporation
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
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. In addition, the division represents the office on many boards and commissions in staffing roles and in voting representation.

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 technology, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. Personnel of this office also represent the Comptroller as appointed members of various boards, commissions, and committees. 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 loans to local government units for Qualified Zone Academy Bonds.

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.

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. The office also provides assistance to counties involved in the Tennessee Base Mapping Project, and the implementation of the statewide Geographic Information System (GIS).

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 Property Tax Relief Program for the low income elderly or disabled homeowner as well as the disabled veterans. The division's mission is to make government work better to improve the quality of life for all Tennesseans by ensuring superior administration of the property tax system.

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 also helps 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. The Office of State Assessed Properties has been given the task of administering the telecommunication ad valorem tax reduction fund. Also, the office audits the companies under the Comptroller's assessment jurisdiction to ensure compliance with the filings on the ad valorem tax reports.

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 50 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, 2005, 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, 2005, 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.

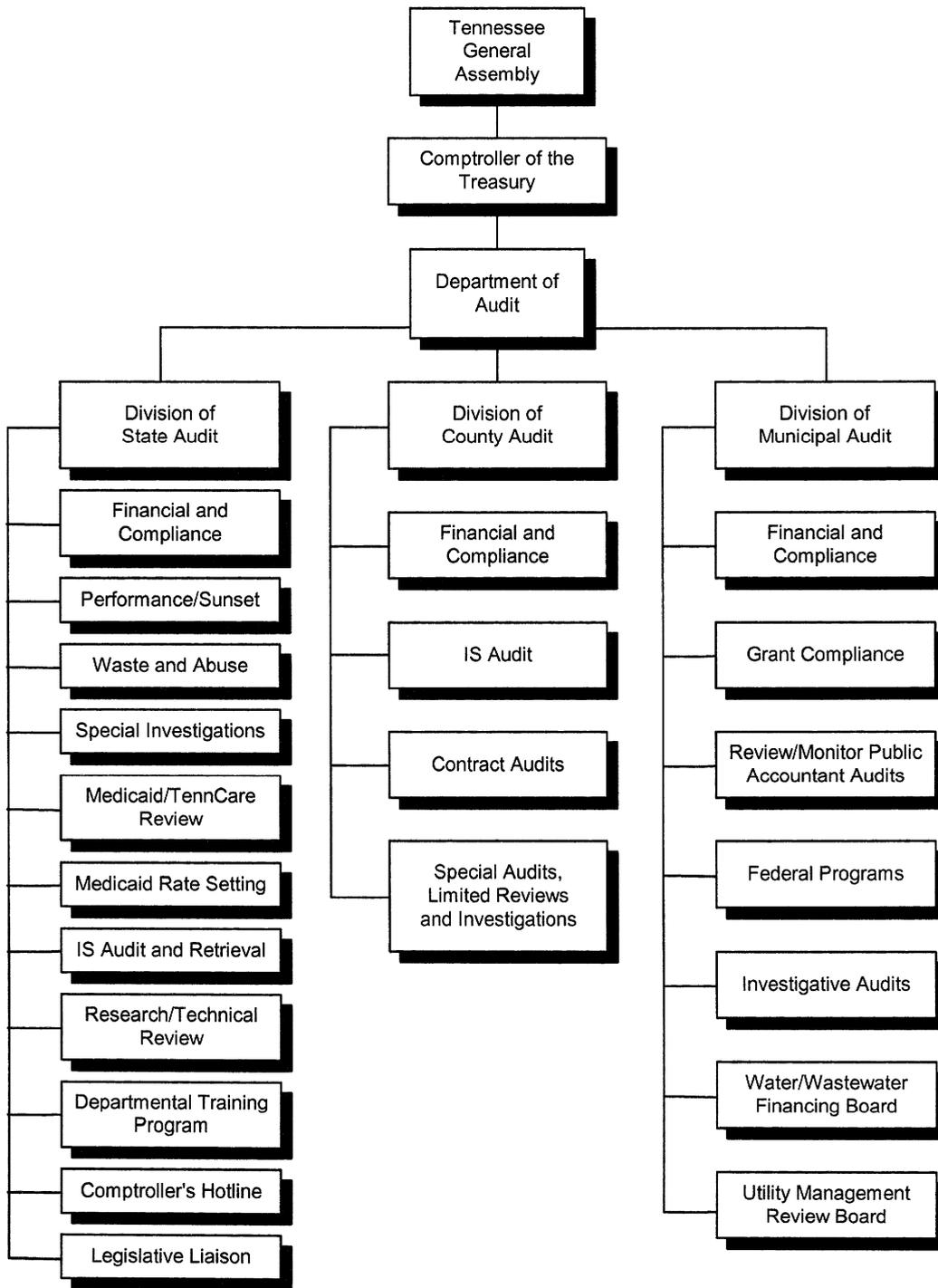
Members of the staff also participate in the following professional organizations:

- 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 a past national president of the Association of Government Accountants (AGA) and a member of the National Board of Directors. 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 a member of the Executive Committee and the Program Committee of the Southeastern Intergovernmental Audit Forum. In addition, Mr. Norment is a member of the National Intergovernmental Audit Forum Strategic Planning Task Force and a member of the 16th Biennial Forum of Government Auditors Conference Planning Committee.

Arthur L. Alexander, Director of the Division of County Audit, is a member of the Government Finance Officers Association and the Association of Government Accountants (AGA), and has served as president of the Nashville AGA chapter and as regional AGA Vice President.

Art Hayes, Jr., Director of the Division of State Audit, is both a certified public accountant and a licensed attorney. In addition to his work as a lecturer, instructor, and speaker, he has authored numerous articles for auditing and accounting publications. Mr. Hayes has represented the division in many national and local organizations. He has served on the executive committee of the National State Auditors Association, as chair of the organization's Human Resources Committee, and as former chair of its Committee on Joint Audits and Auditing Standards. Currently, Mr. Hayes is also a certified fraud examiner, having served as program director of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners as well as a board member. He has served as a member of the Executive Board of the Government Finance Officers Association, the Steering Committee for the Annual Governmental Training Program for the American Institute of Certified Public Accountants, the Accounting Curriculum Advisory Group of Tennessee State University, and the Tennessee State Board of Accountancy special committee studying experience requirements for certification. In the Association of Government Accountants, he has been a member of the Awards Committee and chairman of the Financial Management Standards Committee, and on the local level, has served as a member of the Nashville Chapter's Executive Committee and as chapter program chairman. Art is an Eagle Scout.

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 past 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 the first three members of the association to be 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. He is also active as a member of the Tennessee Society of Certified Public Accountants and in 2003 was the recipient of the Outstanding CPA in Government Award and in 2004 was presented with the Association of Certified Fraud Examiners’ “Outstanding Government Award.” In 2005, he was presented with the Outstanding Discussion Leader Award by the Tennessee Society of Certified Public Accountants. In addition, Mr. Dycus was recently elected as a member to the association’s newly formed Not-for-Profit Board of Directors. 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
Peer 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 Vice-Chair—Dan Willis
Audit Standards and Reporting Committee—Gerry Boaz
- Government Finance Officers Association
Special Review Committee—Gerry Boaz
Committee on Accounting, Auditing and Financial Reporting—Gerry Boaz
- Association of Government Accountants
Senior Vice President—Deborah Loveless
Website Committee—Dan Willis
- National Intergovernmental Audit Forum
Standards Liaison Committee—Deborah Loveless

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, 2005, the GASB had issued 47 authoritative standards, 3 concept statements, 6 interpretations, and 12 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 and attestation engagements. The Yellow Book incorporates auditing standards generally accepted in the United States of America 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*.

Peer Review

The department internally monitors the quality of audit work through its Peer 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 Peer Review 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 Peer Review 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 Peer 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 2004 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 peer review for the year ended June 30, 2004, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period of July 1, 2003, through June 30, 2004, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards." The next peer review is scheduled for August 2006.

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-fourth 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 Chattanooga, 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

Nathan Abbott	Secretary
Jim Arnette	Southeast Regional Vice-President
Penny Austin	Executive Committee; Co-Chair, Meetings and Attendance Committee
Kevin Huffman	Executive Committee; Chair, Meetings and Attendance Committee

State Audit

Kathy Anderson	Executive Committee; Chair, Education Committee
Gerry Boaz	President-elect; Executive Committee; Certified Government Financial Management Coordinator, Southeast Region; CGFM Committee
Nichole Curtiss	Executive Committee; Chair/Editor, Newsletter Committee
Tammy Farley	Chair, Community Service Committee
Glen McKay	Chair, Program Committee
Beth Pendergrass	Co-Chair, Early Careers Committee
Dan Willis	Executive Committee; Chair, Website Committee

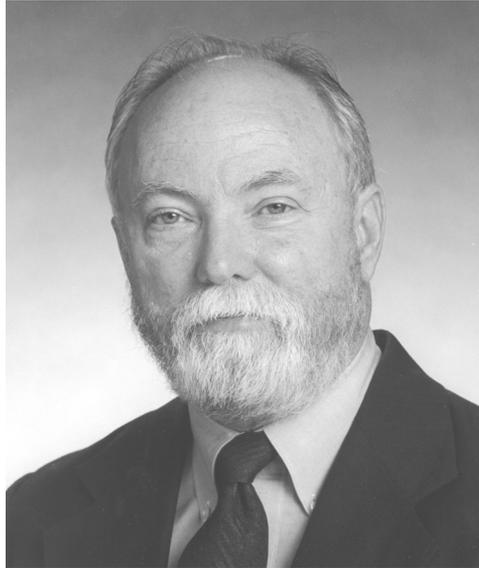
In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Staff from the Department of Audit are also active in the Middle Tennessee Chapter of the Association of Certified Fraud Examiners. Brent Rumbley of the Division of State Audit is president of the chapter, and Beth Pendergrass of State Audit is secretary. Lewis Robbins of the Division of Municipal Audit is chair of the Website Committee, and Dennis Dycus of Municipal Audit is President-Emeritus.

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

Wendell Voss of the Division of State Audit is treasurer of the Middle Tennessee Chapter of the Information Systems Audit and Control Association.

Division of State Audit



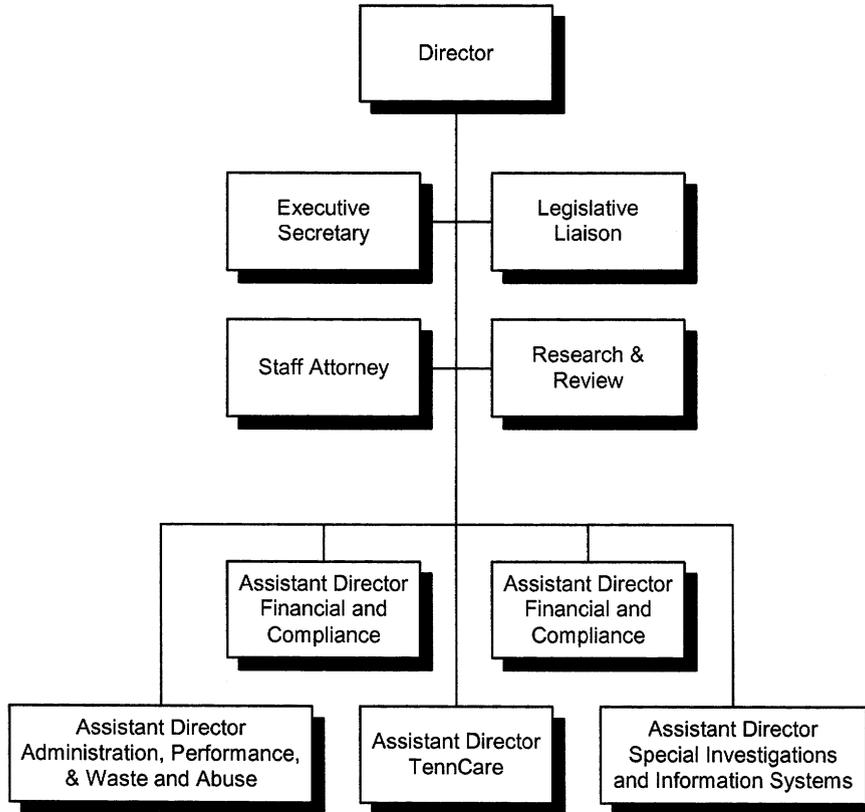
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA
Director**

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 90 reports during the year ended June 30, 2005; an additional 127 audits and special investigations were in progress at June 30, 2005.

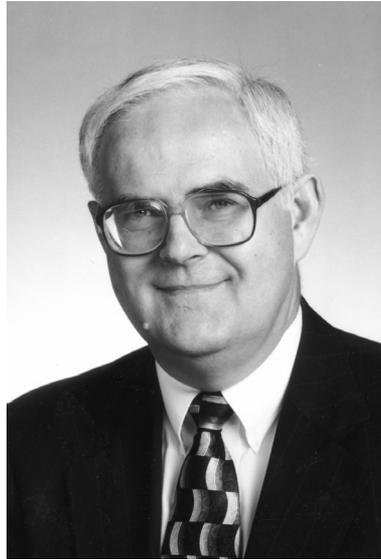
This division includes six sections: financial and compliance, TennCare, performance, waste and abuse, special investigations, and information systems. Highlights of the work each section performed from July 1, 2004, through June 30, 2005, are presented in this chapter. Complete reports are available 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, 2004. 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 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, 2005, the division published 70 financial and compliance audit reports containing 138 audit findings and issued opinions on 45 sets of financial statements. On June 30, another 61 audits were in progress. The following are summaries of some of the published audit reports.

Single Audit of the State of Tennessee

The Single Audit of the State of Tennessee for the year ended June 30, 2004, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of over \$10 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, and Allowable Costs/Cost Principles that are applicable to its Medicaid Cluster.

Noncompliance with the aforementioned requirements applicable to the Medicaid Cluster 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 \$6,146,444 were questioned for the year ended June 30, 2004.

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, 2004. 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 Children's Services

November 2004

As noted in the prior five audits, 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.

The department has inadequate controls to prevent payments from exceeding the established limits in the Chafee Foster Care Independent Living program. The department does not have an edit check within the standard claim invoice processing system that would prevent claims from exceeding the established expenditure limits for individual recipients. The department relies on the Community Services Agencies to track all lifetime limits for each youth and does

not have adequate controls in place to reject standard claim invoices that exceed the limits in the Chafee Foster Care Independent Living program.

The department did not maintain adequate case file documentation for youth in the Chafee Foster Care Independent Living Program. Chafee Independent Living case files did not contain adequate documentation related to applications and service contract agreements. Chafee funds were paid to one youth who was ineligible to receive funding.

The department did not submit an Internal Accounting and Administrative Control Report in compliance with Section 9-18-104, *Tennessee Code Annotated*.

Department of Children's Services

For the Year Ended June 30, 2004

The department has not collected overpayments; uncollected overpayments totaling at least \$1,174,601 are due from foster care and adoption assistance parents. This finding was noted in the ten previous audits.

The department charged the Title IV-E program for children's expenditures that were not Title IV-E reimbursable, and the department had no documentation of criminal background checks of approved foster parents. This finding was noted in the prior two audits. Federal questioned costs for the cases sampled totaled \$47,860.

Children's case files did not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, and permanency plans for foster children. This finding was noted in the five previous audits.

The foster parents' files did not contain documentation of annual foster home reassessments and that foster parents completed PATH training.

Adoption Assistance files did not contain adequate documentation to support the adoption assistance subsidies paid to adoptive parents. Federal questioned costs for the cases sampled totaled \$51,093. This finding was noted in the two previous audits.

The department did not obtain adequate approval for administrative leave with pay and inappropriately used federal funds. The department did not have the necessary authorization from the Department of Personnel to pay eight individuals administrative pay for more than 30 calendar days. Federal questioned costs for these payments totaled \$29,968.

Department of Commerce and Insurance

April 2005

Codes Enforcement is not in compliance with modular housing policies and procedures. The Codes Enforcement section has not complied with its policies and procedures concerning license renewal of construction inspection agencies, license renewal of

modular building manufacturers, and obtaining monthly production reports from the modular building manufacturers.

Documentation of manufactured housing inspections is not adequate to determine if the inspections are being performed. The Codes Enforcement section of the Division of Fire Prevention is not enforcing federal and state policies and procedures for documentation of manufactured housing inspections.

The Division of Consumer Affairs is still failing to take timely action on complaints, has failed to list companies on its buyer beware list, and has significant database problems. The division is not sending letters to respondents within the time frame specified in its policies and procedures for following up consumer complaints. The division has not updated the "Buyer Beware List" since July 2003 and the division has serious database problems.

The Regulatory Board Division's policies and procedures for preparation of the annual report are inadequate. The division does not have adequate written documentation of the procedures employed to produce the annual report of each board's fees collected, expenditures, and reserve balances.

The Employee Leasing Board is not enforcing the requirements for timely certification of payroll tax payments or documentation of workers' compensation insurance coverage by licensees. The Employee Leasing Regulatory Board is not ensuring that a certification from an independent CPA is received within 90 days of the end of each quarter or that proof of workers' compensation insurance is received from the licensee.

The Department of Commerce and Insurance does not require board members to provide a conflict-of-interest disclosure form. Although the department has developed policies and procedures for disclosing potential employee conflicts of interest, the policies and procedures do not encompass potential board member conflicts of interest.

Tennessee Consolidated Retirement System

For the Year Ended June 30, 2004

The Tennessee Consolidated Retirement System should strengthen controls over access to the Consolidated Retirement Information System. The Tennessee Consolidated Retirement System should ensure that employee access within the Consolidated Retirement Information System is adequately segregated to minimize the opportunity for certain employees to divert funds to inappropriate accounts.

Department of Education

December 2004

The department has not maintained adequate controls over equipment, nor has it adequately updated the Property of the State of Tennessee system to reflect accurate equipment information.

The West Tennessee School for the Deaf was operating an unauthorized bank account.

The department failed to approve contracts before the beginning of the contract period.

Performance evaluations are not being performed. The department has not complied with the Department of Personnel's policies requiring periodic employee performance evaluations.

The Coordinated School Health Program's expenditures were missing supporting documentation and included questionable expenditures.

**Department of
Environment and
Conservation**

May 2005

The department does not adequately limit access to the state's computer applications for the Property of the State of Tennessee (POST) system, which is used to account for the state's equipment other than vehicles; the Tennessee On-Line Purchasing System (TOPS), which is used to process purchase orders; and the State Employee Information System (SEIS), which is used to process personnel actions.

The department has inadequate controls over the Hospitality Management System and Point of Sale System. There are no written policies and procedures or security violation reports for revenue systems, and there are inadequate controls over gaining access to the systems.

Weak controls over cash receipts were observed at the state parks. The department does not have adequate controls over cash-receipting procedures at the following state parks visited: Montgomery Bell, Natchez Trace, Old Stone Fort, and Tims Ford.

Montgomery Bell State Park was not following the departmental policy for free and reduced-price meals for employees.

Natchez Trace and Tims Ford state parks did not enforce all requirements of the lease agreements for their leased operations. In addition, proper documentation was not always maintained to determine if correct amounts were paid timely, and the agreements were not always approved before the beginning of the lease term.

Controls over inventories at state parks need to be improved. The department does not have adequate controls over inventory at the following state parks: Montgomery Bell, Natchez Trace, and Old Stone Fort.

Proper purchasing procedures were not always followed. At Montgomery Bell, Natchez Trace, Old Stone Fort, and Tims Ford state parks, some purchases were not made in accordance with the state's guidelines and/or the department's purchasing procedures. Purchases were not always properly approved. For other purchases, the park should have obtained bids.

Controls over equipment need to be improved. The department did not always remove lost or stolen items from POST or report them to the Comptroller of the Treasury timely. For some equipment items tested, the serial number shown in POST was not correct.

Financial responsibility rules are not enforced. The Division of Underground Storage Tanks does not enforce its rules requiring tank owners to demonstrate financial responsibility for cleanup costs associated with petroleum leaks.

Controls over underground storage tank expenditures need to be improved. The division does not have adequate controls over expenditures for cleanup costs associated with petroleum leaks.

Underground Storage Tank Fund Is Insolvent. The division has more outstanding requests for reimbursement from tank owners/operators than available funds to disburse, resulting in significant delays in payments.

Proper accountability over certain assets received in 1996 still has not been established. Land transferred to the department when the Tennessee Elk River Development Agency was dissolved in 1996 has still not been recorded in the state's inventory system.

Procedures for collecting delinquent fees were not followed. The Consolidated Fee Section did not always follow departmental procedures for collecting delinquent fees for the environmental divisions and for calculating penalty and interest on those fees.

Contracts were not approved before the beginning of the contract period. The department allowed contracted services to be performed before all of the proper approvals of the contracts were obtained.

Controls over community assistance grant expenditures need to be improved. The department did not have controls in place to detect mathematical errors on invoices or maintain enough documentation to determine mathematical accuracy. Also, the department did not always pay invoices timely and maintain supporting documentation to support payments.

The lack of oversight on propane purchases has resulted in lost cost-savings. The lack of proper oversight at Fall Creek Falls State Park and Tims Ford State Park resulted in the parks paying considerably more for propane than was necessary.

The conference office has failed to research support for payments to prevent overpayments and duplicate payments to vendors. The conference office in Nashville does not have a system in place to identify billings that have already been paid, resulting in overpayments to vendors. During the audit period, there were 48 known overpayments and duplicate payments totaling \$9,376.91.

Controls over equipment are inadequate. Many equipment items could not be located, were not properly tagged, or were not listed correctly on the Property of the State of Tennessee listing.

**Department of Finance
and Administration**

For the Year Ended June 30, 2004

As noted in the prior two audits, the Department of Finance and Administration's Division of Capital Projects and Real Property Management has failed to implement an effective review system of land transactions entered on the Land Inventory System (LIS). As a result, land was not always properly valued. The LIS is also used by the Division of Accounts to record values for buildings. It was noted during the current audit that seven buildings that no longer exist were still reported on the state's financial statements.

As noted in the prior audit, the Office for Information Resources has not implemented adequate controls over two areas. Two additional areas that need improvement were noted in the current audit. Failure to provide such controls increases the risk that unauthorized individuals could access sensitive state systems and information.

For the second year, TennCare chose to improperly record administrative payments to Premier Behavioral Systems of Tennessee as medical assistance payments, resulting in \$4,894,492 of federal questioned costs. In addition, the current audit also revealed that the total amount of administrative payments to both Premier and Tennessee Behavioral Health exceeded the amount of funding allowed to the TennCare Partners Program by \$47,013.

As noted in two prior audits, TennCare's monitoring of payments to the Managed Care Contractors needs improvement.

TennCare failed to follow established financial policy and procedure, and as a result, incorrectly issued an \$8,000,000 check to an institutional Medicare cross-over provider.

As noted since 1999, TennCare is still violating the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled in the way claims are paid for services provided to the mentally retarded and developmentally disabled. Testwork revealed that TennCare has continued to inappropriately pay the Division of Mental Retardation Services (DMRS) as a Medicaid provider. DMRS in turn has continued to treat the actual Medicaid service providers as DMRS vendors. TennCare has not paid DMRS the same amounts DMRS has paid the providers.

As noted in the previous five audits, some of TennCare's providers did not have documentation to substantiate services associated with fee-for-service claims under the Medicaid Home and Community Based Services Waivers.

Since 1995, there have been weaknesses in internal control over TennCare eligibility. The current audit noted that TennCare paid for individuals with invalid social security numbers and did not reverify the eligibility of all enrollees.

As noted in the six previous audits, we continue to find deficiencies in controls over computer system security. Terminated employees still have access to the TennCare Management Information System, and TennCare needs to improve documentation of system changes.

As noted in the previous audit, TennCare's administrative appeals process needs improvement. Based on testwork performed, it appeared that for 18 of 25 administrative appeals (72%), the delays were attributed to factors beyond the Bureau of TennCare's control. However, for 7 of 25 administrative appeals (28%) that exceeded the 90-day federal requirement, TennCare could not provide documentation to explain and/or justify the delays.

As noted in prior audit findings in the previous four audits, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees who become ineligible for SSI. This is because TennCare still does not have a court-approved plan which would allow TennCare to make a new determination of the eligibility of these enrollees.

As noted in the prior three audits, TennCare did not approve contracts before the beginning of the contract period. Our testwork revealed that 25 contracts and/or amendments that had beginning effective dates between July 1, 2003, and June 30, 2004, were not fully executed before the beginning of the contract period.

As noted in the prior four audits, the Bureau of TennCare has not adjusted estimates used to equal actual expenditures for services provided to TennCare enrollees residing in an Institution for Mental Diseases.

TennCare failed to ensure that provider requirements were met in accordance with the *Code of Federal Regulations*, the Centers for Medicare and Medicaid Services *State Operations Manual*, and state law. TennCare did not ensure that all managed care organizations required providers to make necessary disclosures, TennCare's applications with cross-over providers did not include required disclosures, and TennCare did not maintain adequate documentation that hospitals had met the prescribed federal health and safety standards.

**Tennessee Education
Lottery Corporation**
For the Year Ended June 30, 2004

The Tennessee Education Lottery Corporation needs to improve the administration of its human resources. Our audit procedures indicated instances of noncompliance with state law and corporation policies regarding the hiring of corporate employees. In addition, our procedures indicated several weaknesses in internal control related to payroll payments and records.

**Department of General
Services**
May 2005

The Department of General Services, Division of Motor Vehicle Management, did not follow state purchasing rules when obtaining routine automotive maintenance such as car washes and oil changes. These parts and services were obtained without a contract or getting competitive bids.

Although approval from the Commissioner of the Department of Personnel is required for out-of-state travel, approval was not documented for out-of-state travel of federal property screeners.

Controls over the inventory and sales of surplus property need improvement. The weaknesses noted include having no assurance that established procedures for the sale of surplus property are followed, no reconciliation of property sold to the funds collected, and no segregation of newly received items that were not yet recorded to the inventory records from items already included in the inventory records.

The State of Tennessee has inadequate controls over the access levels of users of the Tennessee On-Line Purchasing System (TOPS) who also have access to the State of Tennessee Accounting and Reporting System (STARS). Of 539 persons with some level of TOPS access and STARS write access, 16 individuals had levels of access that clearly created inadequate segregation of duties. These individuals could initiate, enter, and approve purchase requisitions; enter and approve purchase orders; record receipt of purchased items; approve the invoice for payment; and initiate the payment in STARS.

Department of Health
February 2005

Controls over expenditures need improvement. Supporting documentation was not canceled to prevent duplicate payments, approval was not obtained, and payment was late.

The department did not comply with the Department of Finance and Administration's policies governing non-competitive contract negotiation. The department could not provide supporting documentation for non-competitive contract negotiations exceeding \$1 million.

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

For the past 19 years the department has circumvented the state's employment process to obtain staffing services. The department has used grant agreements with a nonprofit organization, community

services agencies, and human resource agencies to obtain staffing services.

The department did not comply with all provisions of the Financial Integrity Act, which requires management to submit a letter acknowledging responsibility for internal controls.

The department did not establish adequate internal control over purchases made using payment cards. The department did not maintain adequate documentation for purchases made using the department's payment cards, purchases were not properly approved, payment card transaction logs were not reconciled to the bank statements, and payment cards were not canceled upon termination of employees.

The department violated state law and purchasing policies and procedures. The department failed to purchase goods from available statewide contracts and failed to obtain bids to ensure the lowest prices.

Department of Health
For the Year Ended June 30, 2004

Although the bulk of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) participants are automatically eligible due to their participation in other programs, the department has issued WIC vouchers to individuals who appeared not to be eligible based on the information contained in the Patient Tracking and Billing Management Information System. The department has not properly documented eligibility records of participants in the WIC program. Total federal questioned costs were \$419,810.

The department did not adequately monitor a high-risk food delivery vendor for the WIC program when information raising concerns about the vendor's integrity came to management's attention.

The department has not adequately segregated duties of employees responsible for the issuance of food vouchers to participants in the WIC program. Therefore, it is possible for users to create participant files to support unauthorized vouchers issued, which makes detection of unauthorized vouchers more difficult.

Security over the Patient Tracking and Billing Management Information System (PTBMIS) needs improvement. Management could not provide the PTBMIS User Authorization forms for 22 of 25 users (88%) in the Upper Cumberland region or for any of the users in the Shelby County Metropolitan Health Department. In addition, the department has not produced and reviewed a PTBMIS System Security Report to monitor system access.

Management could not provide adequate assurances that no improper program changes and modifications had occurred. Program change documentation for PTBMIS was missing, incomplete, or not approved by management. In addition, system administrators improperly

circumvented management approvals, resulting in errors in system data.

The department does not have information systems policies and procedures. Without these policies and procedures, the department does not have sufficient guidance to effectively direct, control, operate, and maintain any of its systems.

The department did not monitor the required percentage of local agencies or clinics for the WIC program. The department did not monitor two of the ten local agencies at least once every two years as required. In addition, the review of one region did not include the required 20% of all clinics in the region.

The department has not followed its policy to identify and prevent dual participation in WIC and the Commodity Supplemental Food Program (CSFP). The purpose of the dual participation report is to identify participants that may be participating in more than one WIC program or in both the WIC and CSFP programs.

The department understated expenditures for the Immunization Grants program on the Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2004, by \$4.7 million. Staff did not include all expenditures for the state's county health departments in the schedule.

The department did not comply with program requirements and special tests and provisions for the Immunization Grants program. The department has not ensured that providers in the program have maintained adequate documentation of vaccinations given. In some cases, providers have charged a higher fee than established by the United States Department of Health and Human Services.

The controls over the federal Vaccine Management System (VACMAN) need improvement. Testwork revealed that management of the department's Communicable and Environmental Disease Service (CEDS) section has not limited access to the system to only staff who need it; CEDS management did not approve provider agreements; and CEDS staff did not reconcile providers listed in VACMAN to actual provider agreements.

**Tennessee Higher
Education Commission**
August 2004

The commission did not comply with the Financial Integrity Act by preparing and submitting by June 30, 2003, the responsibility letter acknowledging responsibility for maintaining the internal control of the commission.

**Tennessee Housing
Development Agency**
For the Year Ended June 30, 2004

The Section 8 Contract Administration Division's policies and procedures for contract/funding renewals and rent adjustments are inadequate, resulting in noncompliance with the HUD contract and related guidelines. The policies and procedures developed by the Section 8 Contract Administration Division do not contain detailed

information explaining how to process contract/funding renewals and rent adjustments. In addition, the division does not have an ongoing training program or plan for new or incumbent staff.

**Tennessee Human Rights
Commission**
August 2004

The commission's revenue procedures and controls were inadequate. Cash receipting functions are not adequately segregated. Also, commission revenue records were not being reconciled to the State of Tennessee Accounting and Reporting System.

Internal controls for purchasing need improvement. The commission does not have an adequate segregation of duties relating to purchasing. Access for ordering, receiving, invoicing, and paying are not separate.

Improvements in controls over expenditures are needed. The commission did not pay vendor invoices in accordance with the Prompt Payment Act of 1985. Also, supporting documentation was not maintained for all expenditures.

The commission did not adhere to personnel policies and procedures. The commission did not comply with the Department of Personnel's rules governing employment practices for interim and emergency employees. Also, employees did not receive an annual evaluation in accordance with Department of Personnel policy.

Controls over equipment need to be strengthened. The commission could not locate a piece 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 and tag number on equipment did not agree with POST. Also, a former employee's access to POST had not been terminated.

**Department of
Human Services**
For the Year Ended June 30, 2004

Controls over Vocational Rehabilitation equipment need to be strengthened. One piece of equipment could not be found. Others had erroneous information in the state's equipment tracking system. Also, the inventory process had not been completed for approximately 10% of the equipment assigned to the program.

The Division of Rehabilitation Services has not always properly maintained client case files. One of 40 cases selected for client eligibility testwork (2.5%) could not be located.

The department did not always properly monitor organizations that provided services for the Division of Rehabilitation Services. Organizations that provide services to this program were permitted to be paid based only on information shown on an invoice for reimbursement.

The Department of Human Services did not reduce Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements. Federal regulations

require the state to reduce benefits not less than 25%. None of the 25 applicable cases tested had benefits reduced appropriately. This was a finding in the prior three audits.

The department has not always properly monitored its contractors in the Temporary Assistance for Needy Families program. The contract review group has not been monitoring all of the program's contractors, and some reviews were not always adequate.

The department did not comply with Child Support Enforcement regulations. The department was not timely in establishing support obligations and initiating interstate cases. The department's annual self-assessment included cases that should not have been included in the self-assessment, and erroneous conclusions were made about others.

The Department of Human Services did not follow its approved cost allocation plan. For the quarter ended June 30, 2004, the department used the wrong cost allocation method to allocate the administrative costs of the department's Office of General Counsel.

For the fiscal year ended June 30, 2004, the department failed to monitor organizations that provide services for the Child Care program, and the results of monitoring visits did not always agree with conclusions in the monitoring reports. Some child care program contractors were paid based only on the information shown on an invoice for reimbursement. Some of the monitoring reviews were inadequate.

Security over the department's computer systems needs improvement. Applicable policies should be followed or developed.

Department of Labor and Workforce Development

For the Year Ended June 30, 2004

The Department of Labor and Workforce Development did not monitor all of its Workforce Investment Act subrecipient contracts as required by the *Code of Federal Regulations* and the Department of Finance and Administration's Policy 22, *Subrecipient Contract Monitoring*. Ten of 21 high risk subrecipient contracts identified as requiring monitoring were not monitored by the department during the fiscal year.

The department did not always document or maintain documentation of the initial verification of identity of unemployment compensation claimants. Also, additional wage information obtained from employers by the Employer Accounts Section was not entered into the ESCOT (Employment Security Combined Online Technology) system by the Data Entry section. In addition, controls over the processing of Unemployment Insurance benefit claims need improvement.

The Department of Labor and Workforce Development did not properly prepare and submit federal reports, in a timely manner, in

accordance with the requirements of the United States Department of Labor. Also, there was no review of the reports submitted by the Accounting Manager by the Unemployment Insurance Report and Compliance Supervisor and no comparison of the information in the department's accounting records with the information reported on the *Financial Status Reports*.

The Department of Labor and Workforce Development did not request and obtain enough federal funds to cover the Trade Adjustment Assistance program administrative costs. Also, there were no written drawdown procedures and drawdown duties were not adequately segregated.

The Department of Labor and Workforce Development requested and received too much federal funding for the Unemployment Insurance program's administrative costs. Also, written drawdown procedures need to be updated and drawdown duties were not adequately segregated.

Office of Legislative Administration
April 2005

Seven equipment items were stolen or lost during the audit period and were not reported to the Comptroller's Office in a timely manner.

The Office of Legislative Administration does not have proper controls over the purchasing function. The office does not always approve purchases in advance, use purchase orders, or document that the lowest purchase price was obtained.

Controls over supplies inventory are inadequate. The office does not maintain a perpetual inventory system, does not perform regular physical inventories of supplies, and does not properly account for supplies inventory usage.

The Office did not have controls over and did not monitor the state's Federal Express account. The Office of Legislative Administration paid for Federal Express shipments that were not related to operating state government or conducting state business.

Department of Revenue
September 2004

As noted in the prior audit, the in-dates recorded in the daily reports do not always agree with the in-dates recorded in the Revenue Integrated Tax System (RITS). Ten of 16 daily reports reviewed, covering the month of January 2004, contained in-dates that did not agree with the in-date recorded in RITS.

As noted in the prior audit, the department's Tax Enforcement offices do not mail checks, cashier's checks, or money orders to the Nashville office in a timely manner. Twelve of 16 officers reviewed did not mail all January 2004 checks or money orders on the day of collection or by the end of the following workday. The same deposit date was recorded in RITS for collections made over a week or longer period.

As noted in the prior audit, the department's daily reports, which are used by Tax Enforcement officers to record all collections received, are not maintained sufficiently. During testwork performed at the Jackson, Columbia, and Chattanooga Tax Enforcement offices, 11 of 16 officers reviewed had January 2004 collections that were not recorded correctly. Also, 12 of 16 officers did not always correctly complete their receipt book or receipts.

Pending amounts were not researched timely, and reliable information on outstanding pending amounts could not be obtained. The department is reviewing the newest pending debits and credits first instead of prioritizing the older debits and credits that will not be valid after a three-year period. Seven of 60 pending amounts reviewed (12%) were not resolved timely. Computer reports showing the extent of the pending debits and credits were not reliable.

The guidelines for account balance changes in RITS are not followed. Forty-four of the 60 account balance change transactions tested (73%) were not handled correctly in accordance with the guidelines set forth by management.

Regional Offices did not record issuances of receipt books. The Taxpayer Services regional offices did not maintain a receipt book log to indicate to whom receipt books were issued, who issued the receipt books, or when they were issued.

Internal control over cash receipts was not adequate. During a review of the Taxpayer Services regional offices, it was noted that the regional offices had been collecting monies for several years without any established procedures, guidelines, or internal control. Due to the lack of control, certain problems with receipts were noted during the audit period.

Tennessee Student Assistance Corporation
For the Year Ended June 30, 2004

The student loan information reflected in the corporation's system was not always correct. The results of the current audit testwork indicated that problems with the reporting of student loan status still exist. For 6 of 40 loans (15%) tested, the loan status shown in the corporation's system did not agree with the status reported by the lender.

Department of the Treasury
For the Year Ended June 30, 2004

The department does not adequately limit access to functions within the Division of Claims System, which is used to process tort claims and property damage claims filed by state employees against the state. Also, access to functions within the Criminal Injuries System, which is used to process victims' compensation claims, is not adequately limited.

Department of Transportation
For the Year Ended June 30, 2004

System administrative and security controls over computer user access need improvement. There is no supporting documentation for authorizing user access to the system.

**Department of
Veterans Affairs**
May 2005

The Tennessee Department of Veterans Affairs did not always follow the policies and procedures set forth in the *State of Tennessee Payment Card Cardholder Manual*. Returned payment cards were not canceled and destroyed, certain cardholders and approvers did not attend mandatory training classes or sign the cardholder agreement, cardholders split invoices, and approvers did not always approve the transaction logs.

Universities, Colleges, Technical Institutes, and Technology Centers

**Nashville State Technical
Community College**
For the Years Ended
June 30, 2003, and June 30, 2002

Employment contracts were not always signed by the employee and properly approved before the effective date. Testwork revealed that for 16 of 38 employees whose contracts were reviewed, 18 contracts were not signed by the employee or properly approved before the effective date of the contract.

User authorization for access to computer systems was not adequately documented, and some terminated employees still had a user account. The college's Computer Services management did not have reliable documentation of authorization for users of the computer systems.

Management's independent, ongoing assessment of fraud risk and implementation of effective mitigating controls, including ongoing monitoring, should include photography supply purchases and inventory and similar operations at the school. Due to weaknesses in internal controls over photography supply purchases and inventory, the former department chairman had personally benefited from the unauthorized sale of photographic film and paper valued at over \$10,000; personally benefited from the unauthorized sale of cameras, lenses, and other items of photographic equipment; and furthermore, exercised control over a state laptop computer, a state television, and a state printer without the consent of the college.

**The University of
Tennessee**
For the Year Ended June 30, 2004

The University of Tennessee's Office of Information Technology has not implemented adequate security controls over the University of Tennessee at Knoxville's financial aid system (BANNER). The University of Tennessee Information Technology Acceptable Use Policy purpose states, "The University of Tennessee seeks to protect the confidentiality of data and privacy of its users, . . . [and] to safeguard the integrity of UTK data and IT resources." Improvements are needed to comply with this policy.

At the University of Tennessee at Martin, 2 of 42 federal financial aid recipients tested for eligibility did not meet the eligibility requirements for their assistance. One of the recipients was not a regular student enrolled for the purpose of obtaining a degree. Another student received financial assistance that exceeded the student's financial need.

At the University of Tennessee at Martin, the university did not properly report enrollment changes for Federal Family Education Loan borrowers who dropped classes, withdrew, or graduated.

Federal Pell Payment Data was not reported in compliance with federal regulations. At the University of Tennessee at Martin, the university credited student accounts with institutional funds more than 10 days before classes began. For these students, the reported disbursement date was more than 10 days prior to the first day of classes. This is not in compliance with the *Code of Federal Regulations*. In addition, the *2003-2004 Federal Student Aid Handbook* states that schools can submit disbursement records up to 30 days before the actual disbursement date. However, 8 disbursement records in the sample were submitted more than 30 days before the disbursement date.

Subrecipients of federal funds were not properly audited. For 5 of 34 federal research and development subrecipients tested for the fiscal year ended June 30, 2003, university personnel did not ensure that the subrecipient was properly audited in accordance with OMB Circular A-133. Each subrecipient was sent a letter inquiring about the subrecipient's need for a Circular A-133 audit. In each case, the letter was not returned or was not received timely.

PRIOR AUDIT FINDING

In October 2003, the Division of State Audit released a special investigation report regarding the presidency of Dr. John Shumaker at the University of Tennessee. This report contained several recommendations for improving controls. The university's internal audit staff conducted a follow-up to ensure the implementation of those recommendations. The Board of Trustees has taken action to address the weaknesses identified by the university's internal auditor and has taken action to address most of the weaknesses identified by the Division of State Audit in its 2003 Special Report. However, the board has neither addressed nor formally discussed the finding concerning oversight of the UT Foundation. Correspondence from the Vice Chair of the Board of Trustees to this office states that at the March 2005 meeting the board will begin an examination of the issues concerning the Foundation.

**Walters State
Community College**

For the Years Ended
June 30, 2003, and June 30, 2002

The college failed to detect financial aid overawards. A computer-assisted audit technique performed on fiscal year 2002 federal financial aid recipients indicated 12 instances where recipients were overawarded without the overaward being detected by financial aid personnel. The overawards totaled \$12,155.00.

Community Services Agencies

**Davidson County
Metropolitan Community
Services Agency**
For the Year Ended June 30, 2003

The CSA is not operating as a distinct entity separate from the county. The distinction between the Davidson County Metropolitan Community Services Agency (CSA) and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate.

The CSA has not monitored the Metropolitan Government of Nashville and Davidson County's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the agreement.

The CSA allowed the metropolitan government to provide services for the entire fiscal year ended June 30, 2003, without a properly approved and executed contract in place.

The Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the CSA service area, serves on the board of directors in violation of state law. The DCS Regional Administrator has been appointed to the board by the Commissioner of DCS although according to state law the Governor is to appoint members to the board.

During the year ended June 30, 2001, the CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute. The transfer has not been included in a Plan of Operation or subsequent amendments and has not been approved by the appropriate state officials.

**Hamilton County
Community Services
Agency**
For the Year Ended June 30, 2003

The Department of Children's Services' (DCS) Regional Administrator serves on the board of directors of the Hamilton County CSA in violation of state law. According to state law, board members must be appointed by the Governor. The DCS Regional Administrator has not been appointed to the board by the Governor.

**Knox County Community
Services Agency**
For the Year Ended June 30, 2003

Internal control over travel claims is inadequate. The agency did not ensure travel claims were adequately completed, supported, and approved before payment.

The agency did not comply with the Department of Children's Services' contract terms and did not enter into contracts as required by the State Rules and Regulations. Management did not include required language in its contracts and did not enter into contracts when purchases of services exceeded certain limits.

The agency inappropriately incurred foster care expenditures after the period of eligibility and did not comply with the internal policies and procedures when purchasing goods and services for children and families. The agency paid \$1,791 to one youth beyond the period of

eligibility. In addition, the agency paid for items that were not allowed according to its internal policy.

The Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the community services agency (CSA) service area, serves on the Knox County CSA's board of directors in violation of state law.

**Mid-Cumberland
Community Services
Agency**

For the Year Ended June 30, 2003

Certain information in both the financial statements and notes was not properly presented. In addition, the statements and notes included amounts that did not agree with the general ledger or supporting documentation, and supporting documentation contained calculation and footing errors.

The agency failed to conduct a criminal background check for 4 of 18 applicable employees hired during the fiscal year ended June 30, 2003. In addition, the agency's policies and procedures regarding criminal background checks for new employees are not adequate.

**Northwest Community
Services Agency**

For the Year Ended June 30, 2003

Reconciliations of the Northwest Community Services Agency's bank account to the agency's accounting records for the year ended June 30, 2003, were not always performed in a timely manner. Seven of 12 reconciliations (58%) were performed 51 to 111 days after the bank statement closing date.

**South Central Community
Services Agency**

For the Year Ended June 30, 2003

Staff of the South Central Community Services Agency has not shown sufficient regard to controls over payroll and personnel transactions. Documentation authorizing payroll additions or changes was not signed by the executive director, personnel change forms were not signed by the payroll entry clerk, one employee was paid the wrong rate, two files lacked documentation of the employees' qualifications, and the former executive director implemented a travel reimbursement policy that violated state policy and possibly IRS regulations.

**Southwest Community
Services Agency**

For the Year Ended June 30, 2003

Contrary to the agency's own board-approved policies, management permitted the agency to incur expenditures prior to contracts being approved.

The agency inappropriately granted administrative leave with pay. The Executive Director inappropriately placed an employee on administrative leave with pay when the employee had sick and annual leave to use for an illness.



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 19 professional auditors and one nurse auditor perform the following functions:

- Rate setting and audit for nursing homes and Intermediate Care Mental Retardation facilities that participate in the Medicaid Program.
- Examinations of TennCare Managed Care Contractors (MCCs) that contract with the state to provide medical services under the program. The examinations are performed jointly with, and released under, the Department of Commerce and Insurance.
- Computing of 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 public hospitals.
- Computing of 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).

- Provide financial and budgeting support to the Bureau from nursing home paid claims extracts.
- Cost settlements for state-operated Development Centers that provide services to mentally retarded recipients.
- Clinical monitoring of the state’s Mental Retardation Waiver project.

Examinations of Nursing Facilities

In fiscal year ended June 30, 2005, the TennCare section completed nine examinations of Nursing Facilities and Intermediate Care/Mental Retardation Facilities. The examinations reported findings such as

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

Examinations and Agreed-Upon Procedures of TennCare MCOs and BHOs

In fiscal year ended June 30, 2005, the TennCare section assisted the Department of Commerce and Insurance in performing three examinations of MCCs. Examples of significant findings reported included

- Deficiencies in claims processing system
- Deficiencies in provider contract language

The TennCare section also performed certain Agreed-Upon Procedures, as directed by the Bureau of TennCare, on three MCCs.

Special Projects – Grier Consent Decree

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. One such project is 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.

Quarterly reports through June 30, 2005, have been completed and the report for the quarter ending September 30, 2005, is in progress.

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, 2005, the performance audit section released 7 audit reports and had 17 projects in process at year-end. The Government

Operations Committees held 12 public hearings on 36 entities in the year ended June 30, 2005. At these hearings, performance audit staff presented audit reports covering 16 entities. Another 20 entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility.

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 seven audit reports released during the year ended June 30, 2005.*

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

Our follow-up review indicated that the department had taken some action to address all of the 16 findings in the March 2003 performance audit and that a majority of the problems identified in those findings have either been resolved or partially resolved. The findings summarized below detail five areas about which we still had major concerns or believed a substantial amount of work still remained to be done.

The Department Was Not Timely in Its Preparation for Implementation of the Tennessee Manufactured Home Installation Act, and Unless Changes Are Made, It Seems Unlikely That the Department Will Be Able to Ensure That All Requirements of the Act Are Met

Despite being aware of the requirements of the Tennessee Manufactured Home Installation Act since May 2002, equipment for staff has not been set up, rules and regulations have not been formally approved, installation decals were delivered to the county clerks after the effective date of the Act, and the contract for the provision of the manufactured home installation examination did not begin until March 12, 2004, more than two months after the Act's effective date of January 1, 2004.

The Electrical Inspection Section Has Still Not Implemented a Process to Periodically Review the Competency of the Cities/Counties Granted Exemption from State Electrical Inspections

The State Fire Marshal may authorize municipalities to perform their own electrical inspections and, thereby, be exempt from state inspections. However, the 2003 audit found that the Electrical Inspection Section did not periodically review the competency of the cities and counties granted exemption from state electrical inspections, nor had the section clarified what local governments must do to be granted an exemption. Although policy guidelines and procedures have been developed, as of June 2004, the department did not have rules and regulations in place to ensure that exempt jurisdictions are performing their enforcement functions adequately or appropriately.

Although Participation in the Tennessee Fire Incident Reporting System (TFIRS) Has Improved, the Majority of Fire Departments Still Do Not Report Fire Incident Data

TFIRS is used to collect data as part of a local, state, and federal coordinated effort to create a national database on fire incidents. Information from computerized fire incident reporting systems is important in targeting fire prevention efforts, raising awareness, and helping identify training needs for firefighters in a particular location. The 2003 audit found that the majority of Tennessee's fire departments did not report data to the TFIRS. Although participation by fire departments in TFIRS has improved, the majority of fire departments within the state, including two of the ten largest cities/metropolitan areas in the state, still do not report fire incident data to TFIRS.

The Department's Fire Prevention Education Efforts Have Improved; However, Efforts Do Not Appear to Be Part of a Formal, Comprehensive, and Widely Applied Fire Safety Program

The 2003 audit noted the lack of, and the need for, a formal, comprehensive fire prevention education program. While fire prevention education efforts by the department have improved since the last audit, efforts still appear to be informal in nature and do not appear to be part of a systematic, comprehensive, or widely applied fire safety program.

Implementation of Minimum Training Requirements and Improved Tracking of Training Would Help Ensure Bomb and Arson Special Agents Continue to Receive Needed Training

The Bomb and Arson Section does not have a policy regarding minimum training requirements for its special agents. It appears that the majority of special agents received at least 40 hours of training during calendar year 2003. However, the section does not have a comprehensive and up-to-date tracking system for training in place, making it difficult to determine the amount and nature of training received by special agents.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to amend Section 68-102-111 or Title 68, Chapter 102, Part 3, *Tennessee Code Annotated*, to give the department increased authority to enforce the reporting requirements for fire departments by means other than derecognition or prosecution.

**Department of Economic
and Community
Development and Office
of Business Enterprise**
April 2005

The Department Should Improve Its Performance Measures and Ensure It Has Adequate Economic Information to Help It Determine Whether It Is Meeting Its Goals and Statutory Mandate

The department's performance measures focus on output rather than outcomes in terms of the results or effects of its programs. Until recently, the department had not comprehensively identified the major economic areas of the state or their associated needs. The department cannot determine whether its programs are improving economic conditions in the state, at least indirectly, without collecting and tracking data on multiple economic indicators.

The FastTrack Infrastructure Development Program Has No Real Grant Limits

Because the funding requirements for infrastructure grants have changed in the yearly appropriations act, there is not a true limit on the amount the department may award to a local government.

The Department Does Not Collect Adequate Data to Determine the Extent of Effectiveness of the FastTrack Training Assistance Program

The department does not follow up to ensure that companies are hiring at least as many people as agreed upon, collect information on the wage levels of those who are hired, or evaluate the program to assess its impact

and determine its effectiveness. As a result, it is unclear how successful the program is in encouraging new job hires.

The Department Did Not Gather All Necessary Information to Properly Implement and Monitor the FastTrack Infrastructure Development Program

The department had not collected program outcome information, such as the number of new hires, from either the companies or communities receiving infrastructure grants. Thus, it is unclear whether the program has been successful in encouraging job creation and retention or encouraging businesses to locate or expand in the state.

The Department Had Not Enforced Local Government Compliance With the Requirement for Joint Economic and Community Development Boards in Order to Receive State Grants

Although joint economic and community development boards have been a requirement for all state grants since 1998, the department had not enforced this requirement when awarding infrastructure grants. The boards' purpose is to foster communication about economic development between and among governmental entities, industry, and private citizens.

The Business Enterprise Resource Office Had Not Developed a System to Measure Its Performance

The office's mission is to expand economic opportunities for small, rural, and minority- and women-owned businesses by providing technical, financial, and management assistance. Without a performance measurement system, the department cannot determine whether the office is accomplishing its goals and objectives.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: the Three-Star Pilot Program, Community Development Block Grant processing time, and department monitoring of Community Development Block Grants.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider (1) placing all statutes pertaining to the FastTrack Infrastructure Development Program in *Tennessee Code Annotated* instead of the yearly appropriations act so that program requirements remain consistent over time, and giving the responsibility to the State Funding Board for making recommendations to the General Assembly on increasing grant limits, as needed; and (2) mandating funding limits that apply to an entire project instead of to a contract, specifying State Funding Board approval for any exceptions.

The Division Has Failed to Assure Compliance With All the Terms of the Settlement Agreement Covering Arlington Developmental Center

Arlington Developmental Center had achieved compliance with the terms of the settlement agreement in many areas as of the last quarter of calendar year 2003, but the center had not complied or had achieved only partial compliance in other areas. Failure to fully comply with the terms of the settlement agreement increases the likelihood that residents are not receiving the level of services and protection to which they are entitled, and this failure to comply could possibly increase the state's liability if problems do occur. In addition, such failure could result (and has resulted in the past) in the court assessing fines or taking other actions against the division.

Placements of Developmental Center Residents Into the Community Have Declined in Recent Years

The 1997 consent decree entered into by the parties involved in *People First et al. v. Clover Bottom Developmental Center et al.* required that the state find community placements for those residents of its institutions who are deemed suitable for assignment into the broader population. Since 1997, populations at the developmental centers have declined substantially; however, in the last several years, fewer patients have been moved from developmental centers into the community. Factors inhibiting community placements include insufficient number of community providers and staff to deliver the intensive types of services needed by many developmental center residents; lack of federal funds available for community placements in Tennessee, except in cases where patients are "in crisis"; and resistance to community placements by families or caretakers of mentally retarded individuals.

As a Result of the CMS Moratoriums, the Lack of Funding, and Insufficient Numbers of Providers, the Division Has Not Adequately Addressed the Needs of Over 3,000 Individuals on Its Waiting List

According to the division's Monthly Waiting List Report, as of December 31, 2003, there were 3,163 people on the waiting list for services. The number of people on the waiting list has increased in recent years, from 2,175 in December 2000 to 2,646 in December 2001 to 3,053 in December 2002. The inability to receive needed services can negatively affect the ability of a person with mental retardation to meet his or her full potential, detract from that person's quality of life, negatively impact the health and safety of that individual and others, and place an increased burden on family members and other caregivers.

There Are an Insufficient Number of Providers to Address the Needs of Mentally Retarded Persons Living in the Community; in Addition, There May Be Many Other Mentally Retarded Persons Who Need (or Will Need) Community Services But Who Have Not Been Identified by the Division

Although the division is taking steps to identify service gaps and recruit new community service providers to fill those gaps, there are currently

insufficient services available to meet the identified needs of mentally retarded persons in the community. In addition, the division has only limited information concerning current and future needs of mentally retarded individuals and their families throughout the state.

OBSERVATIONS AND COMMENTS

The audit also contains information on the following issues: (1) at least partial compliance achieved by Clover Bottom and Greene Valley Developmental Centers in nearly all treatment areas covered by the settlement agreement and (2) the recent changes the division has made in its processes for monitoring community providers.

**Northwest Community
Services Agency**
October 2004

The Agency Does Not Monitor Vendors for Contract Compliance and Service Quality

The agency does not monitor the quality of services provided by vendors from whom it purchases services. Neither does it monitor vendors with whom it has contracts for service quality or contract compliance. Without such monitoring information, agency management has no basis for determining the consistency of services provided to each client, the quality of the services, and whether the services are improving the well-being of children and families.

The Agency Is Not Monitoring for Title VI Compliance

As a Department of Children's Services contractor, Northwest CSA completes a Title VI self-survey that provides information about the agency's internal compliance with Title VI. However, the agency does not monitor its contractors for compliance with Title VI. All programs receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis race, color, or national origin.

The Agency Does Not Monitor Vendors to Ensure Background Checks Have Been Conducted and Did Not Have the Background Check Results for Five of Its Case Managers

The agency does not monitor its vendors to ensure that required criminal background checks have been conducted on their employees. Also, the agency did not have background check results for five of its own case managers. By not verifying criminal histories, the agency could inadvertently place children at risk of being harmed by persons convicted of child abuse offenses.

The Quasi-External and Internal Review Processes of Agency Operations and Service Delivery Need Improvement

Instead of focusing on service quality, the quasi-external Quality Improvement reviews mirror the content of the internal monthly case file reviews conducted by agency supervisors. The agency also does not send the Quality Improvement review results to the Department of Children's Services, and the process does not require corrective action plans. These problems make it difficult for the agency and the

department to determine whether children's situations are improving because of the services provided.

The Agency Lacks Detailed Written Procedures for Department of Children's Services Programs

The agency does not have detailed written procedures explaining the steps employees should take to fulfill DCS requirements for checking for community-based services before purchasing services, conducting monthly case file reviews, and entering KID\$TRAX information. Written procedures ensure that all current and future employees understand agency requirements and promote consistency in delivery of services.

The Board of Directors Is Not Fully Complying With the Notice Requirements of the Open Meeting Law

Current public notice to the approximately 250,000 people (101,000 households) of the region consists of advertisement in the Union City *Daily Messenger*, which has a circulation of only 8,300. Placing meeting notices in other newspapers or media outlets would maximize the number of citizens exposed to meeting notifications.

Board Policies Need to Be Revised

In the past, the board has had lengthy vacancies. Board policies make no provision for board member participation via conference call or for removal of a board member because of absence. All members are appointed by the Governor except for the Commissioner of the Department of Children's Services, and only the Governor can remove a board member.

Board Members and Staff Are Not Filing Annual Conflict-of-Interest Statements

Board members' conflict-of-interest statements are between two and four years old. Employees' conflict-of-interest statements are signed only on the date of employment. Annual written disclosures of financial interests, prior employment, employment of immediate family members, and other matters that may influence decisions or could give the appearance of influencing decisions help ensure the board and staff are acting on the state's behalf and that board members are rescuing themselves from decision-making as needed.

Many Promotions and Job Changes Are Not Documented in Employee Personnel Files

Nearly one-third of personnel files did not have documentation of promotions or changes in employees' job positions. Without such documentation, start dates for pay and benefits changes cannot be confirmed to make sure employees are receiving accurate compensation.

Case Manager Job Specifications Are Outdated and Too General

Case manager job specifications used by the agency for hiring purposes date from 1993 Department of Children’s Services job specifications for program specialists and only very generally reference duties.

No Data Reliability Testing Has Been Conducted on KIDSTRAX

The KIDSTRAX database used by the community services agencies to create invoices to bill the Department of Children’s Services for reimbursement has had no formal data reliability testing conducted on it. Without formal data reliability testing, the agencies cannot be certain that there are adequate internal controls within the program software and over the use of the software and that the data in the system are valid and reliable.

The TennCare Transportation Program Does Not List Its Revenue Contracts in Its Plan of Operation and, in One Instance, Is Providing Services to a Managed Care Organization Without a Formal Contract

With only a Letter of Intent dated 2001, OmniCare pays Northwest CSA to provide transportation coordination services for its TennCare Transportation program. A written contract protects both parties by enumerating, in writing, the complete agreement between parties.

TennCare Transportation Program Vendor Files Do Not Contain Necessary Documentation

Some vendor files did not contain documentation of certifications, licenses, and on-site reviews. Without complete documentation, the agency cannot properly oversee the operations of the TennCare Transportation program and safeguard the program’s clients.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: (1) the lack of monitoring by the Department of Children’s Services and OmniCare MCO, (2) the Department of Children’s Services commissioner’s serving on the agency’s board, (3) conflicts between annual report and financial statement requirements, and (4) the TennCare Transportation Program at Northwest CSA is not the only such program available to TennCare MCOs and BHOs and their clients in the Northwest region.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider (1) amending state law to provide for the removal of board members with excessive or consecutive absences and (2) amending Section 37-5-305(b), *Tennessee Code Annotated*, based upon the advice of the Attorney General, to remove the Commissioner of the Department of Children’s Services or the commissioner’s representative from serving as a voting member on rural CSA boards. Section 37-5-305(j), *Tennessee Code Annotated*, would limit the commissioner’s participation in the majority of CSA business.

The Agency Does Not Monitor Vendors for Contract Compliance and Service Quality

The agency does not monitor the quality of services provided by vendors from whom it purchases services. Neither does it monitor vendors with whom it has contracts for service quality or contract compliance. Without such monitoring information, agency management has no basis for determining the consistency of services provided to each client, the quality of the services, and whether the services are improving the well-being of children and families.

The Agency Is Not Monitoring for Title VI Compliance

As a Department of Children's Services contractor, Southwest CSA completes a Title VI self-survey that provides information about the agency's internal compliance with Title VI. However, the agency does not monitor its contractors for compliance with Title VI. All programs receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin.

The Agency Is Operating Under Draft Policies That Have Not Been Approved by the Department of Children's Services and Which Differ From Those Drafted by the Department

Operating under unapproved policies can cause inconsistency of service provision among the community services agencies and can cause noncompliance with department or court-mandated activities.

The Agency Does Not Monitor Vendors to Ensure That They Conduct Background Checks

The agency does not monitor its vendors to ensure that required criminal background checks have been conducted on their employees. By not verifying criminal histories, the agency could inadvertently place children at risk of being harmed by persons convicted of child abuse offenses.

The Quasi-External Reviews of Child and Family Services Operations and Service Delivery Need Improvement

Instead of focusing on service quality, the quasi-external Quality Improvement reviews duplicate the content of the internal quarterly case file reviews conducted by agency supervisors. The agency also does not send the Quality Improvement review results to the Department of Children's Services, and the process does not require corrective action plans. These problems make it difficult for the agency and the department to determine whether children's situations are improving because of the services provided.

Internal Reviews of Child and Family Services Operations and Service Delivery Processes Lack Detailed Written Procedures and Require Improvement

Internal reviews do not always comply with Department of Children's Services policy, generally lack identification of the reviewer and reviewee, and have miscalculated or omitted compliance percentages.

Without uniform administration of these reviews, the agency may make staffing decisions based on incomplete or erroneous information.

The Board of Directors Is Not Fully Complying With the Notice Requirements of the Open Meeting Law

Current public notice to the approximately 350,000 people (132,000 households) of the region consists of advertisement in the *Jackson Sun*, which has a circulation of only 35,294. Placing meeting notices in other newspapers or media outlets would maximize the number of households exposed to meeting notifications.

Board Policies Need to Be Revised

The board has had problems with appointees never attending meetings or missing a significant number of meetings. Board policies make no provision for board member participation via conference call or for removal of a board member because of absence. Only the Governor has the authority to remove board members. Also, board policy does not require a quorum of at least half of its membership for conducting business.

Board Members and Staff Are Not Filing Annual Conflict-of-Interest Statements

Many board members' conflict-of-interest statements are several years old. Employees' conflict-of-interest statements are signed on the date of employment. Annual written disclosures of financial interests, prior employment, employment of immediate family members, and other matters that may influence decisions or could give the appearance of influencing decisions help ensure the board and staff are acting on the state's behalf and that board members are recusing themselves from decision-making as needed.

The Agency Lacks a Formal Complaint Process for Clients and Vendors

The agency lacks a formal process for addressing client and vendor complaints. Depending on the severity of the complaint, the agency may or may not complete documentation regarding either the complaint or the resolution. Without a formal complaint process, agency management cannot ensure that it addresses and tracks complaints in a timely, consistent, and impartial manner.

Many Case Manager Personnel Files Are Missing Probationary or Annual Evaluations

Just over two-thirds of case manager personnel files were missing one or more probationary or annual evaluations. Conducting annual evaluations provides employees with regular feedback about how they are progressing and provides a sound basis for promotion and/or retention.

No Data Reliability Testing Has Been Conducted on KID\$TRAX

The KID\$TRAX database used by the community services agencies to create invoices to bill the Department of Children’s Services for reimbursement has had no formal data reliability testing conducted on it. Without formal data reliability testing, the agencies cannot be certain that there are adequate internal controls within the program software and over the use of the software and that the data in the system are valid and reliable.

The TennCare Transportation Program Is Providing Services to a Managed Care Organization and Two Behavioral Health Organizations Without a Formal Contract

With no formal contract or only a letter of intent, OmniCare, Tennessee Behavioral Health, and Premier pay Southwest CSA to provide transportation coordination services for its TennCare Transportation program. A written contract protects both parties by enumerating, in writing, the complete agreement between parties.

TennCare Transportation Program Vendor Files Do Not Contain Necessary Documentation

Some vendor files did not contain documentation of licenses, vehicles, background checks and on-site reviews. Without complete documentation, the agency cannot properly oversee the operations of the TennCare Transportation program and safeguard the program’s clients.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: (1) lack of monitoring by the Department of Children’s Services, Omnicare MCO, and Premier and Tennessee Behavioral Health BHOs; (2) the Department of Children’s Services commissioner’s serving on the board; (3) conflicts between annual report and financial statement requirements; and (4) the TennCare Transportation program at Southwest CSA is not the only such program available to TennCare MCOs and BHOs and their clients in the Southwest region.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider (1) amending state law to provide for the removal of board members with excessive or consecutive absences and (2) amending Section 37-5-305(b), *Tennessee Code Annotated*, based upon the advice of the Attorney General, to remove the Commissioner of the Department of Children’s Services or the commissioner’s representative from serving as a voting member on rural CSA boards. Section 37-5-305(j), *Tennessee Code Annotated*, would limit the commissioner’s participation in the majority of CSA business.

OBSERVATIONS AND COMMENTS

The audit had no findings but had the following observations: minority recruitment, board oversight, and presidential searches.

Minority Recruitment

The 2000 performance audit of the Board of Trustees found that the UT system needed to continue minority recruitment efforts because it had not attained all the goals agreed to in the 1984 *Geier* lawsuit settlement for minority enrollment and hiring. Since then, a new *Geier* agreement has been reached with different requirements. An October 2004 status report filed by the court monitor showed satisfaction with UT's actions to comply with the decree. The only weakness mentioned in the report concerned the lack of increases in UT's (and the Board of Regents') recruitment and retention of African-American faculty.

Board Oversight

The board has taken action to address the weaknesses identified by the university's internal auditor in the August 2003 special review of the UT president's office and has taken action to address most of the weaknesses identified by the Division of State Audit in its 2003 Special Report on issues related to the presidency of Dr. John Shumaker. However, the board has neither addressed nor formally discussed the finding concerning oversight of the UT Foundation.

Presidential Searches

The issue of the presidential search process became of interest with the selection of John Shumaker as president of the University of Tennessee and the subsequent scandal resulting in his resignation a year and a half later. The process by which university presidents are chosen has recently been a topic of discussion not just in Tennessee but in higher education as a whole. More and more states are allowing their public colleges to mount presidential searches without disclosing the identities of the candidates.

There appears to be no easy answer to how open university and college presidential searches should be. Academic studies suggest a balanced approach that ensures confidentiality in the *search* for presidents and openness in the *selection* of presidents. Only through continued discussion and awareness of the pros and cons of both public and private searches will a balance be reached that meets the needs of candidates, schools, governing bodies, and the public.

Professional Regulatory Boards

June 2005

Not All Boards Have Met the Requirement for Self-Sufficiency*

Professional regulatory boards are required by law to be self-sufficient, i.e., their revenues in a given year should be sufficient to cover their expenses. Through their rule-making process, the boards have the authority to increase fees to meet this requirement. Boards that were not self-sufficient for multiple consecutive years during the period reviewed include the Board of Barber Examiners (1999 through 2004), the Board of Cosmetology (2002 through 2004), the Board of Funeral Directors and Embalmers (1999 through 2003), the Board of Examiners for Land Surveyors (1999 through 2002), and the Real Estate Appraisers Commission (1999 through 2001).

The Board of Cosmetology Wavered in Actions to Remedy Problems With Its Testing Contractor, Resulting in Delays for License Applicants and Consuming Time and Effort of Staff Involved

Since 2001, the Board of Cosmetology has taken action to cancel a contract with its testing contractor, reversed that action after a new Request for Proposal (RFP) had already been issued, and later canceled the contract a second time. This indecision resulted in delays for applicants ready to test and receive a license and the use of a substantial amount of staff time (both legal and administrative) to cancel the contract, initiate the bid process for a replacement contractor, cancel that RFP process and the contract termination process, and subsequently restart the cancellation process. The board's actions also highlighted the need for clear direction from board legal and administrative staff regarding the board's authority and the appropriateness of board activities.

Complaint Handling Guidelines Have Not Been Followed Consistently*

In December 2003, the Division of Regulatory Boards established written guidelines to provide a basic framework for handling complaints. The division also established, in its strategic plan, a 180-day target time for complaint resolution. Through a review of 40 complaint files randomly selected from the fiscal year 2004 complaints reported by the 12 boards included in this audit, we found that the guidelines were not consistently being followed and time frames were not being met.

Verification Procedures for Applicant Information Need to Be Improved

As part of the licensing process, a board should take reasonable steps to ensure the applicant meets all requirements. Such steps might include testing, reviewing or verifying information submitted, and investigating the applicant's background. In addition to the individual boards' responsibility, the Division of Regulatory Boards is responsible for establishing and maintaining effective controls to ensure the boards consistently apply the guidelines and criteria. To determine whether licensees met the qualifications set by the boards (for initial licensure and renewal) and how the boards verify applicant information, we tested a sample of license files for each of the 12 boards. These file reviews revealed a need for improvements in several areas. Although board procedures vary, our review of files and analysis of procedures indicate that in most cases the boards' review and approval of applicants' files is perfunctory. In many instances, the boards do not verify an applicant's answers to questions.

The Burial Services Office Has Only Limited Authority to Penalize Cemeteries That Do Not Submit Required Reports on Time, and It Has Not Used the Authority It Does Have*

The Burial Services Office (under the supervision of the executive director of the Board of Funeral Directors and Embalmers) has staff, including an audit supervisor and six auditors, who conduct audits of cemeteries' financial activities. Section 46-2-202, *Tennessee Code*

Annotated, requires each cemetery company to file a report of its condition within 75 days of the end of the calendar or fiscal year. The trustee of the company's Improvement of Care Fund must file a trust fund report within 45 days after the end of the calendar year or the cemetery company's fiscal year. Cemeteries with Merchandise and Services Trust Funds and the trustee of those funds are also required to submit trust fund reports within 75 days. Our review indicated that although cemeteries did not always submit these reports on time, the Burial Services Office did not issue penalties as authorized by law for Merchandise and Services Funds reports. Authority to issue penalties related to Improvement of Care Fund reports was unclear.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues that affect the operations of the professional regulatory boards and the Division of Regulatory Boards, as well as the citizens of Tennessee: the transfer of authority for monitoring insurance-funded preneed funeral contracts to the Burial Services Office, the centralization of board investigations and inspections, consumer representation on the boards, and certain boards' actions regarding applicants/licensees who experienced problems either before or during licensure.

Waste and Abuse

The Waste and Abuse section is focused on looking at waste and abuse or the potential for waste and abuse. According to *Government Auditing Standards* (the Yellow Book), "Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision or grant agreement is violated. Rather the conduct of a government program falls far short of societal expectations for prudent behavior." The section produces special reports highlighting areas where state agencies have not acted in the best interest of the state. The special reports are generally briefer than our audit reports. Members of this section look at issues with only one or two objectives instead of the more comprehensive scope addressed in traditional performance audits, but often cover the same issue in numerous state agencies. We place a premium on flexibility. Topics for the Waste and Abuse section projects may be originated by any source, including the Comptroller of the Treasury, the Director of State Audit, management and staff of any division of the Comptroller's Office, a legislator, someone in another part of state government, or someone outside of state government.

Issues Related to the Contract Between the Division of Mental Retardation Services, Clover Bottom Developmental Center, and Action Rehabilitation Services, Inc.:
Department of Mental Health and Developmental Disabilities,
Department of Finance and Administration
September 2004

In November 1996, the State of Tennessee entered into a settlement agreement with the United States Government and People First of Tennessee, which represented a class of all persons who resided or would reside in the future at Clover Bottom Developmental Center (Clover Bottom) in Nashville, Greene Valley Developmental Center in Greeneville, or Nat T. Winston Developmental Center in Bolivar, which was closed in November 1998. The terms of the settlement included an agreement by the state to employ or retain the services of qualified physical therapists, occupational therapists, and certified physical therapy assistants/certified occupational therapist assistants to provide adequate and appropriate care and services to the class members. The state was under no obligation to retain the services of contractors to perform these services. In fact, Clover Bottom had an Assistive Technology (AT) Department which fabricated equipment and provided related therapy.

In December 1998, the state entered into a contract with Action Rehabilitation Services (ARS) to provide physical therapy services for persons who have resided or will reside at Clover Bottom. The original term of the contract was for the period January 1, 1999, to December 31, 2001, with a maximum liability of \$2,812,160. In October 2001, the contract was extended until December 31, 2003, and the overall liability was increased to \$5,120,960. Clover Bottom signed a six-month extension of the contract through June 2004. The contract between Clover Bottom and ARS ended as of June 30, 2004.

The contract with ARS expressly provided that the state was not to pay for “non-work hours”; that the state was not to be billed by ARS for the contractor merely having staff available to provide services; that the state was not obligated to use any services of ARS; and that, in addition to invoices, ARS was to maintain documentation supporting the charges to the state. All billings by ARS are expressly subject to audit for compliance with the contract terms.

In November 2002, this office began receiving complaints regarding ARS billing practices and the way ARS staff was running the AT Department at Clover Bottom.

Our review disclosed that ARS billed for hours ARS staff were “available” rather than for hours worked, did not maintain adequate documentation, billed for services not provided for in the contract, performed and billed for work that did not require the expertise of the skilled ARS staff, and billed for excessive numbers of appointments with therapists. Due to the time required to analyze records and to try to find documentation for hours billed, the auditors restricted their detailed review to the month of October 2002. For that month, ARS billed a total of \$87,608.80. However, documentation could only be found for billings totaling \$42,267.85, or 48% of the total billings.

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, 2005, 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.

Ongoing investigative reviews resulted in the recovery of \$55,810, one resignation, one termination, and 8 indictments with a total of 24 counts of misconduct that have led so far to 4 convictions during fiscal year 2005.

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 call (800) 232-5454

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 10,267 calls, including 530 calls between July 1, 2004, and June 30, 2005. Of the 530 calls, 169 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 169 calls referred for action, responses have been received on 142, and these are considered closed. The remaining 27 continue to be considered open.

The remaining 361 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, 2005.
Agriculture—Credit Card Misuse	The caller alleged that an employee of the department was improperly using a state issued credit card for personal purchases. The department determined that employee had not made personal purchases, but reprimanded the employee for signing a receipt without inspecting it for accuracy.
Board of Regents—Improper Disposal of Surplus Property	The caller alleged that a community college was failing to properly dispose of surplus property. Funding was set aside to fill the vacant position of Purchasing Manager to oversee management of surplus property.
Children’s Services—Mismanagement of Grant Funds	The caller alleged that a grant recipient was not complying with the terms of its grant contract. The department determined that the entity did need to take some corrective actions to comply with the grant contract, including developing a case tracking system and training in the development of a measurable service plan.
Commerce and Insurance—Improper Inspection of Boilers	The caller alleged that the department had charged a boiler inspection fee for a boiler that does not exist. The department determined that through a clerical error two permit numbers were registered for the same boiler in the building. A refund was issued.

Environment and Conservation— Vehicle Misuse	The caller alleged that a state park employee was using a state issued vehicle for personal purposes. Park management instructed the employee that the vehicle was to be driven home only to serve as an emergency response vehicle and that the vehicle should not be perceived as a commuter vehicle.
Environment and Conservation— Improper Use of State Park Housing	The caller alleged that a state park employee was improperly living in a state park cabin while the employee was having a house built. It was determined that the employee did have verbal permission to live in state owned housing, but the department and employee did not document the permission as required by Finance and Administration policy. In addition, the employee was not paying rent as required by Finance and Administration policy. The employee submitted the proper documentation and paid back rent in order to continue living in the housing.
Environment and Conservation—Leaking Septic Tank	The caller alleged that a neighbor’s septic tank was leaking. The department issued a Notice of Violation. If the owner fails to maintain the septic tank, legal action will be taken by the department.
Health—Late Opening	The caller alleged a health clinic did not open until well after posted operating hours. The department determined that the clinic failed to post a proper notice on the day in question informing patients that the clinic would open at a later time due to employee training.
Health—Rude Employee	The caller alleged that an employee of a health clinic was rude to her. The county director spoke with the employee and the service recipient. The employee apologized to the service recipient for the perceived rudeness and the service recipient was satisfied with the apology.
Health—Failure to Follow Discharge Guidelines	The caller alleged that a service provider failed to properly discharge her son. The department determined that the provider did not follow its operating procedures when discharging the son. A deficiency was cited by the department for violation of program policies and rules.
Health—Rude Employees	The caller alleged that staff at a health department were unprofessional because they just “stood around gossiping.” The department determined that the director was aware of the problem and that she had advised staff to keep personal conversations in the break area.
Health—Refusal to Accept WIC Vouchers	The caller alleged that a grocery store would not honor her WIC voucher. The department determined that the grocery store should have redeemed the voucher. A WIC Vendor Representative was sent to the store to discuss the matter.

Health—Failure to See Child	The caller alleged that a county health department turned away her sick child. The department determined that even though child might not have been on the TennCare list, the county health department should not have turned away a sick child. The Director of the county health department sent the mother a letter of apology.
Health—Sexual Abuse and Inadequate Transportation Services	The caller alleged that a client of a service provider had been sexually abused. The caller also alleged that clients were not able to get medications on a timely basis due to inadequate transportation services. The department could not substantiate the sexual abuse allegation, but did cite the provider for failing to report the allegation of sexual abuse to the department as required by regulations. The department substantiated the allegation of inadequate transportation services, but reported that the service provider now had two vans and two drivers for the program.
Health—Verbal Abuse	The caller alleged that staff of a service provider verbally abused its clients by using curse words. The department substantiated the allegation and notified management. This behavior was not repeated in a subsequent visit.
Health—Rude Employee	The caller alleged that the staff at a health department was rude, unhelpful, and unfriendly to the public. The Regional Director reported that training to address issues concerning staff interaction was subsequently scheduled.
Health—Political Activities on State Time	The caller alleged that a department employee was conducting political business on state time. The department determined that the employee had saved a small number of politically related computer files, and had sent one file by state email to a political contact. The department issued a written warning to the employee.
Human Services—Time and Attendance	The caller alleged that a department employee was entering incorrect data on her leave and attendance form. The department verbally warned the employee to properly record her leave and attendance on her time sheet.
Human Services—Unsafe Driver	The caller alleged that a driver of a daycare van was driving in an unsafe manor. The department reported that the daycare voluntarily suspended its transportation program.
Human Services—Abusive Daycare Employee	The caller alleged that a cook at a daycare center had subjected a child to physical abuse and inappropriate disciplinary action. The department along with the department of Children’s Services substantiated the allegation. The employee was placed on a Safety Plan and will continue to be closely monitored.

Human Services— Faulty Weatherization	The caller alleged that work done on her house under the Weatherization Assistance Program was not satisfactory. The problems were resolved to the satisfaction of the caller.
Human Services— Falsification of Attendance	The caller alleged that a daycare center was falsifying its attendance reports in order to receive payment for children not in attendance. The department substantiated the allegation by identifying four children the center claimed were in attendance after the parent had withdrawn them. Questioned costs were sought from the provider by the department.
Human Services— Improper Childcare Benefits	The caller alleged that an individual was receiving childcare benefits provided the individual was in school or working. The department determined that the individual was doing neither. The department warned the individual to comply with the requirement or childcare will terminate. The department will monitor to ensure compliance.
Human Services— Falsification of Attendance	The caller alleged that a daycare operator was falsifying attendance reports in order to receive payment for children not in attendance. The department substantiated the allegation. The case has been referred to the prosecutor for possible indictment.
Human Services— Unsafe Driver	The caller alleged that a driver of a daycare van was driving in a reckless manner. The provider was Placed on Notice and a Correct Action Plan was signed.
Human Services— Untimely Court Date Notices	The caller alleged that she was not receiving notices about court dates dealing with child support services. The department substantiated the allegations. The person handling the notices has been instructed on the proper method to generate notices.
Human Services— Falsification of Food Program Records	The caller alleged that there were irregularities in the manner in which a daycare center participated in the Child and Adult Care Food Program. The department substantiated the allegation. The center was declared seriously deficient in the management of the program. If the serious deficiencies are not corrected by the next monitoring visit, a Notice of Intent to Terminate will be issued.
Labor—Misuse of State Computers	The caller alleged a department employee was using a state computer for personal uses. The department substantiated the allegation. The employee was suspended for five days without pay, and has been warned that any further abuse could lead to termination.
Mental Retardation Services—Time and Attendance	The caller alleged a division employee was falsifying her timesheets. The division determined that the employee's attendance and leave is not being maintained or recorded in accordance with state procedures. The employee has received a counseling session and an oral warning.

Transportation— Untimely Pickup	The caller alleged that a transportation program would reschedule his pickup without giving him notice. The department substantiated the allegation. An employee was separated from employment due to the complaint.
County Audit— Obstruction of County Road	The caller alleged that a citizen was prohibiting public access to a road which is an approved public road. The allegation was substantiated and an audit finding was issued in the county's 2004-2005 audit report.
County Audit— Improper Receipting	The caller alleged that court clerks were not properly receipting photocopy monies. The allegation was substantiated and it was also determined that the trustee was not properly receipting photocopy monies. An audit finding was issued.
County Audit— Commissary Funds	The caller alleged improper receipting and use of commissary funds. It was determined that the Sheriff's department was not using prenumbered receipts and the department was not reconciling the inmate funds received to the inmate log. An audit finding was developed.
County Audit— Improper Storage	The caller alleged that a county employee was storing private vehicles in a public garage. The director of schools acknowledged that the garage supervisor would sometimes store personal vehicles in the garage. The director stated that the practice would stop.
County Audit— Improper Graveling	The caller alleged that the highway superintendent was allowing county rock to be placed on private property and charging it to work orders. The allegation was substantiated. An audit finding was developed and the results of the review were sent to the District Attorney General for consideration of prosecution.
County Audit—No Road List	The county did not have a road list approved by the County Commission as required by state statutes. An audit finding was included in the county's 2004 Annual Financial Report.

Table 1: Analysis of Substantive Hotline Calls Received in Fiscal Year 2005

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
Local Government			
Municipal Audit	10	8	2
Metro Nashville Health Department	2	0	2
County Government			
County Audit	17	15	2
State Government			
Human Services	36	36	0
Health	26	26	0
State Audit	3	1	2
Education	1	1	0
Mental Health and Developmental Disabilities	10	9	1
Finance and Administration	2	2	0
TennCare	4	3	1
Mental Retardation Services	3	1	2
Transportation	7	6	1
Commerce and Insurance	1	1	0
Consumer Affairs	3	1	2
Board of Professional Responsibility	1	1	0
Children's Services	6	6	0
Environment and Conservation	5	5	0
Agriculture	4	2	2
Board of Regents	2	1	1
Correction	2	1	1
Labor	4	3	1
General Services	4	3	1
Financial Institutions	1	1	0
Human Rights Commission	1	1	0
Tennessee Wildlife Resources Agency	1	1	0
Safety	1	1	0
Tennessee Arts Commission	1	1	0
Health Related Boards	3	0	3
First Tennessee Human Resources Agency	1	1	0
Federal Government			
Social Security Administration	2	1	1
Housing and Urban Development	1	1	0
Legal Services Corporation	1	1	0
Department of Labor	1	1	0
Health and Human Services	1	0	1
Postal Inspectors	1	0	1
Total	169	142	27

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, 2005.

Tennessee Board of Regents Lead Center Tennessee Small Business Development Center Network Review of Two Contracts Awarded to Jungle Marketing, Inc.
April 2005

In February 2004, Tennessee Board of Regents (TBR) Chancellor Charles Manning and State Senator Jim Bryson independently requested that TBR's contracts with Jungle Marketing, Inc., be reviewed because of issues raised by several employees of the Tennessee Small Business Development Center Network Lead Center about two contracts awarded to Jungle Marketing. Also in February 2004, Ms. Nancy Amons, an investigative reporter with WSMV Channel 4, Nashville's NBC television affiliate, presented a two-part report, "Monkey Business in State Bidding Process," that questioned the bidding process and the contracts awarded to Jungle Marketing. In March 2004, the Fiscal Review Contract Subcommittee, chaired by Senator Bryson, conducted a hearing related to the Jungle Marketing contracts. The purpose of the hearing was to gather available information about the Jungle Marketing contracts.

Our review did not disclose any evidence of improper actions in awarding the two contracts. However, the review resulted in 12 recommendations designed to enhance TBR's policies, procedures, documentation requirements, and internal controls relating to issuing RFPs, evaluating bids, approving contracts, and monitoring vendor performance. These recommendations were discussed with TBR staff during the review.

Letter Report to Governor Bredesen, Department of Tourist Development, Ackermann PR Contract, News Production and Distribution Services
May 2005

On May 5, 2005, at the request of the Governor's Office, Division of State Audit staff initiated a review of the procurement process relating to the contract for News Production and Distribution Services that had been awarded by the Department of Tourist Development to Ackermann PR, a marketing communications firm based in Knoxville, Tennessee. The request followed a "News Channel 5 Investigates" report by investigative reporter Phil Williams, which questioned the propriety of the contract award to Ackermann PR.

The review found no evidence of improper influence or pressure in the selection of Ackermann PR. However, the review resulted in ten recommendations pertaining to state procurement practices designed to improve documentation, enhance transparency, and further systematize the procurement process as well as to assist in mitigating any appearance of favoritism or bias in selecting vendors and awarding contracts.

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 provides services 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 analyze 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 provided 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



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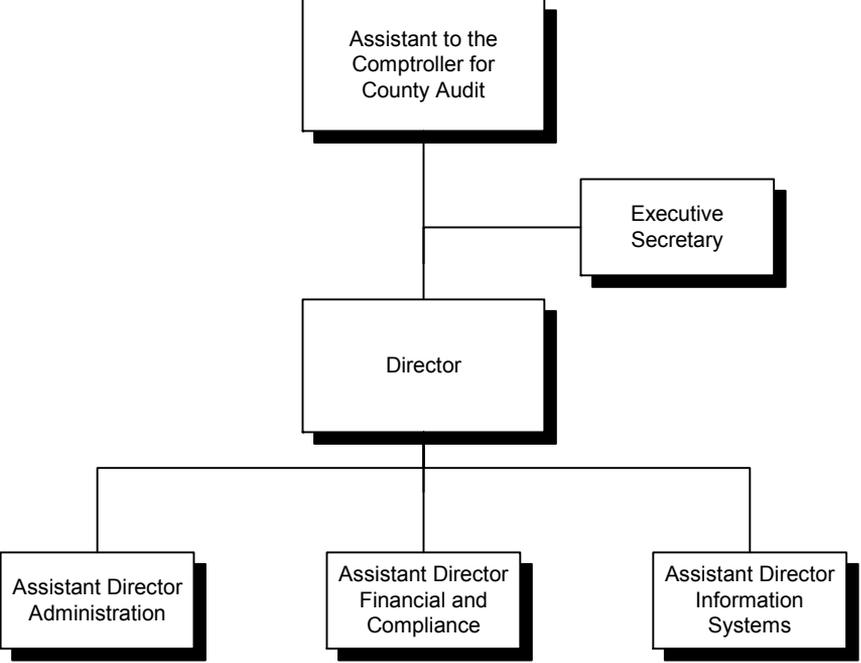


Joe Kimery
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Division of County Audit



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 88 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 seven 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.

Other 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, as well as answering questions on various local governmental matters.

Scope of Activity

Post-Audit of County Governments

The Division of County Audit conducted audits in 88 of the state’s 95 counties during the 2004-05 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	Circuit Court Clerk
County Mayor	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, 2004.

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 annual financial report.

IS systems reviews were conducted in 40 counties during the year ended June 30, 2005. The division anticipates that IS reviews will be conducted in 40 counties and two special school districts during the year ending June 30, 2006.

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 seven county governments during the next four years. The audits of Sumner and Shelby Counties were monitored for the year ended June 30, 2004, and the audits of Davidson and Knox Counties will be monitored for the year ended June 30, 2005.

The division reviewed 301 audit reports for the year ended June 30, 2004, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 302 such reports for the year ended June 30, 2005.

Reviews of Funds Administered by District Attorneys General

During 2005, 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, 2003, through June 30, 2004. 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. In addition, due to the amount of federal grant funds received, we were required to conduct OMB Circular A-133 audits of the Thirteenth Judicial District Drug Task Force and the Thirtieth Judicial District.

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 25 detention facilities during the 2004-05 audit year. As a result of the reviews, it was determined that the state had overpaid \$9,170 for five facilities and underpaid \$98,714 for two facilities. The reviews of 14 facilities resulted in no over- or underpayments. The record-keeping system for four 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, 2004, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Campbell County Sheriff	\$5,000
Madison County Archivist	1,278
Sevier County General Sessions Court Clerk	<u>16,643</u>
Total Cash Shortages	<u>\$22,921</u>

The audits conducted by this division disclosed fund deficits of \$74,713,675 in 58 governmental fund accounts in 41 counties. Audits also reflected net asset deficits totaling \$14,046,174 in 11 enterprise funds and one internal service fund account in 11 counties.

The division's examination of offices and departments in 88 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.

- Government-wide financial statements were not prepared. (54)
- 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. (57)
- Fund expenditures exceeded appropriations approved by the local governing body. (25)
- Budgeted beginning fund balance was understated by a material amount. (23)
- Purchasing procedures were not in accordance with controlling statutes. (31)
- 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. (14)
- Funds were not deposited within three days of receipt, as required by state law. (22)
- 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. (11)

- 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. (8)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (26)
- Deficiencies occurred in accounting/recordkeeping. (82)
- 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. (43)

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

Benton County Clerk

For the Year Ended June 30, 2004

The husband of the county clerk submitted a signed document stating that he purchased a boat for \$6,000. The clerk processed the document with her signature affixed to it and reported the sale to the Tennessee Department of Revenue. The Department of Revenue conducted an investigation and discovered the clerk's husband had actually paid \$21,500 for the boat. He was assessed additional sales tax, penalty, and interest of \$1,133.22 for the amount owed on the difference between the sales price reported and the actual sales price. The clerk's husband has paid this amount and we have reviewed this improper transaction with the district attorney general.

Campbell County

Highway Superintendent

For the Year Ended June 30, 2004

The finance director notified us, the county attorney, and the district attorney general of improprieties involving date falsifications on invoices for asphalt purchases. Our review determined that the highway superintendent changed the dates on invoices so that the asphalt purchases would be reflected as a liability of the next fiscal year and not the fiscal year in which the liability was incurred. Between fiscal years 2000 and 2003, 13 invoices were falsified because the highway superintendent either changed information on the actual invoices before submitting them for payment to conceal the fact that he had overspent the budget for the current fiscal year or created bogus replacement invoices reflecting dates different from the actual invoices and submitted those for payment.

A balance of \$444,268 owed the asphalt vendor on June 30, 2003, was inappropriately charged to the 2004 budget because the highway superintendent altered the dates to reflect those purchases as obligations of the 2004 year. Management approved and posted a prior-period

adjustment of \$444,268 to the beginning equity of the Highway/Public Works Fund. As of August 31, 2004, the asphalt vendor was owed \$645,348.

Coffee County Sheriff
For the Year Ended June 30, 2004

The office had several deficiencies in the administration of drug control funds. Our review found questionable expenditures of \$10,116 that were disbursed from the Drug Control Fund and confidential drug funds of \$5,043 that were used for non-confidential and other questionable purposes. Some of the expenditures were recurring general law enforcement expenditures and should have been paid out of the General Fund from the Sheriff's Department budget. Other expenditures were clearly inappropriate and should not have been paid by the county. There was no supporting documentation on file for some of the expenditures.

Giles County Mayor
For the Year Ended June 30, 2004

Our audit revealed that the Sheriff's Department circumvented the competitive bid process by soliciting bids for a used van and a sport utility vehicle using bid specifications that were written specifically to purchase certain vehicles from a local dealer. In each situation, a local vendor submitted the only bid for a vehicle that met the specifications. For the years ended June 20, 2002, and 2003, our audit reports disclosed similar bidding situations wherein the Sheriff's Department purchased a car and the Ambulance Service purchased an ambulance using bid specifications that could be met by only one vendor.

Hickman County School Department
For the Year Ended June 30, 2004

The director of schools notified us concerning an overdrawn unauthorized school checking account. Our audit revealed that in February 1998, a teacher at Hickman County High School obtained a personal loan for \$19,000 and without the knowledge of school officials, opened a checking account in the name of Hickman County High School to purchase equipment and supplies for his room. This unapproved account was not audited as required by Section 49-2-211, *Tennessee Code Annotated (TCA)*. Our examination disclosed that for the period February 1998 through July 2004, deposits totaling \$33,352 and disbursements totaling \$33,030 were processed through the teacher's unauthorized checking account that should have been processed through the school's official activity fund accounting system.

On April 20, 1998, \$16,245 was paid from the checking account to the Hickman County High School activity fund, and the funds were used to pay a vendor for equipment. Competitive bids were not solicited for this equipment, as required by Section 49-2-203, *TCA*. In December 1998, the original invoices from the April 1998 payment were photocopied, the photocopies were altered, and resubmitted to the Hickman County High School activity fund, and the vendor was paid again. The high school's activity fund was reimbursed for this overpayment by the School Department's General Purpose School Fund. In January 1999, the vendor sent a refund check of \$16,245 to

Hickman County High School. It appears that this refund check was taken directly to the bank and applied against the personal loan; thus public funds were used to retire the personal loan. The teacher's employment with the School Department was terminated in August 2004. This finding has been reviewed with the district attorney general.

Jackson County Highway Superintendent

For the Year Ended June 30, 2004

The Highway Superintendent violated the Uniform Road Law, Section 54-7-113, *Tennessee Code Annotated*, by allowing individuals to pick up rock at a locally-owned rock quarry for use on private property and charged the rock to the county's account. Total charges for the year which could not be traced directly to Highway Department use was approximately \$30,800. The Uniform Road Law states that "the chief administrative officer shall not authorize or knowingly permit...rock, crushed stone or any other road material to be used for any private use or for the use of any individual for private purposes...." In addition to private individuals getting rock at the rock quarry at county expense, we witnessed individuals in private vehicles obtaining rock from the stockpile maintained by the highway department.

Madison County Archivist

For the Year Ended June 30, 2004

Our audit determined that the former county archivist misappropriated county funds resulting in a cash shortage of \$1,278.36. On several occasions, she used county funds to purchase items for personal use. We discussed these deficiencies and irregularities with the district attorney general. The former archivist was indicted on September 7, 2004, for official misconduct and tampering with evidence. Further examination revealed that the former county archivist did not publicly advertise for competitive bids for the purchase of five air conditioning units for the Archives Building but instead obtained separate price quotes from four vendors. Some quotes were altered to increase their original quote amount which resulted in one vendor having the lowest quote on file for each of the five units. We recovered a deleted file from the former county archivist's computer that contained the falsified quote.

Morgan County Coalfield Library

For the Year Ended June 30, 2004

The mayor informed us of concerns he had about disbursements from a bank account maintained by a former librarian at the Coalfield Library. We found inadequate documentation for disbursements and cash withdrawals from this account. We also discovered that four other libraries maintained outside bank accounts. Our examination did not disclose any discrepancies involving disbursements from these four accounts. The practice of libraries maintaining outside bank accounts violates the 1981 Financial Management System Act under which Morgan County operates. None of the disbursements made from any of the libraries accounts had been appropriated by the county legislative body. Between December 1998 and April 2004, over \$28,000 was deposited to and disbursed from the Coalfield Library account. Records were not available to document the source of all funds deposited to this account. The former librarian was unable to provide us with adequate documentation for disbursements from this account.

Some of the disbursements appeared to be for personal purposes rather than business purposes. Because of these deficiencies, we were not able to determine the propriety of many disbursements made from the Coalfield Library account. We reviewed these findings with the District Attorney General's Office. The Coalfield Library account was closed on April 6, 2004.

Perry County Sales Tax

For the Year Ended June 30, 2004

Our analysis of local sales tax collections disclosed that the required amount of local option sales tax was not expended for educational purposes. Section 67-6-712, *Tennessee Code Annotated* requires at least one-half of sales tax revenue be expended for educational purposes. Local option sales tax revenues collected for educational purposes in years ended 2003 and 2004 had been placed into the General Debt Service Fund but some of the funds had not been expended for educational purposes. We provided an audit adjustment of \$101,759 to establish a reserve for sales tax -- education in the General Purpose School Fund.

Sequatchie County Mayor

For the Year Ended June 30, 2004

The County Commission approved the hiring of an architectural firm to oversee construction of a justice center. The architectural firm recommended a firm to construct the justice center. The county mayor signed a contract for \$6,158,855 with the construction company recommended by the architectural firm without soliciting bids as required by Sections 5-14-201 through 5-14-206, *Tennessee Code Annotated*. These statutes require advertisement and competitive bids for all purchases exceeding \$5,000.

**Sevier County
General Sessions
Court Clerk**

For the Year Ended June 30, 2004

The general session's court clerk informed us she discovered improprieties regarding cash collections and money orders. A cash shortage of \$2,616 at August 31, 2004, resulted from inappropriately voided receipts (\$1,271.25) and nine money orders (\$1,344.75) being deposited but not receipted. Cash was removed from the office and receipt totals were manipulated to agree with amounts deposited. Weaknesses in internal controls aided in the concealment of the cash shortage.

One office employee was assigned the task of handling all traffic citations, including the investigation and resolution of any complaints received from customers. The failures to segregate duties gave this employee the opportunity to incorrectly record transactions and inappropriately resolve any questions that arose, without involvement by other office employees. Also, adequate supervision was not provided over the voided receipt function. Receipts were sometimes voided with the explanation of "wrong case" or "wrong type" without new receipts being issued to replace the incorrect receipts. A further examination of bank records after the publication of our report disclosed that the shortage increased to \$16,643.47 as of August 31, 2004. We reviewed this finding with the District Attorney General's Office and the Tennessee Bureau of Investigation. An employee was terminated because of these improprieties.

**White County Circuit
and General Sessions
Court Clerk**

For the Year Ended June 30, 2004

The clerk did not maintain accounting records for Circuit and General Sessions Courts in accordance with generally accepted accounting principles and state statutes. The office had several accounting deficiencies. Bank transactions of the Circuit and General Sessions Courts were not reconciled properly with general ledger cash accounts. During the year, personnel of the clerk's office attempted to prepare monthly reconciliations of the bank transactions of each court; however, these reconciliations reflected unexplained differences between bank balances and general ledger cash accounts at the end of each month. Cash overdrafts were noted in the bank account of General Sessions Court for August and September 2003. The outstanding checklist for the General Sessions Court that the clerk provided included checks that had been paid and were no longer outstanding and checks dated after June 22, 2004, were not listed. Annual financial reports were not filed with the county clerk and the county mayor and execution docket trial balances did not reconcile with the general ledger.

**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.
- 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.

**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

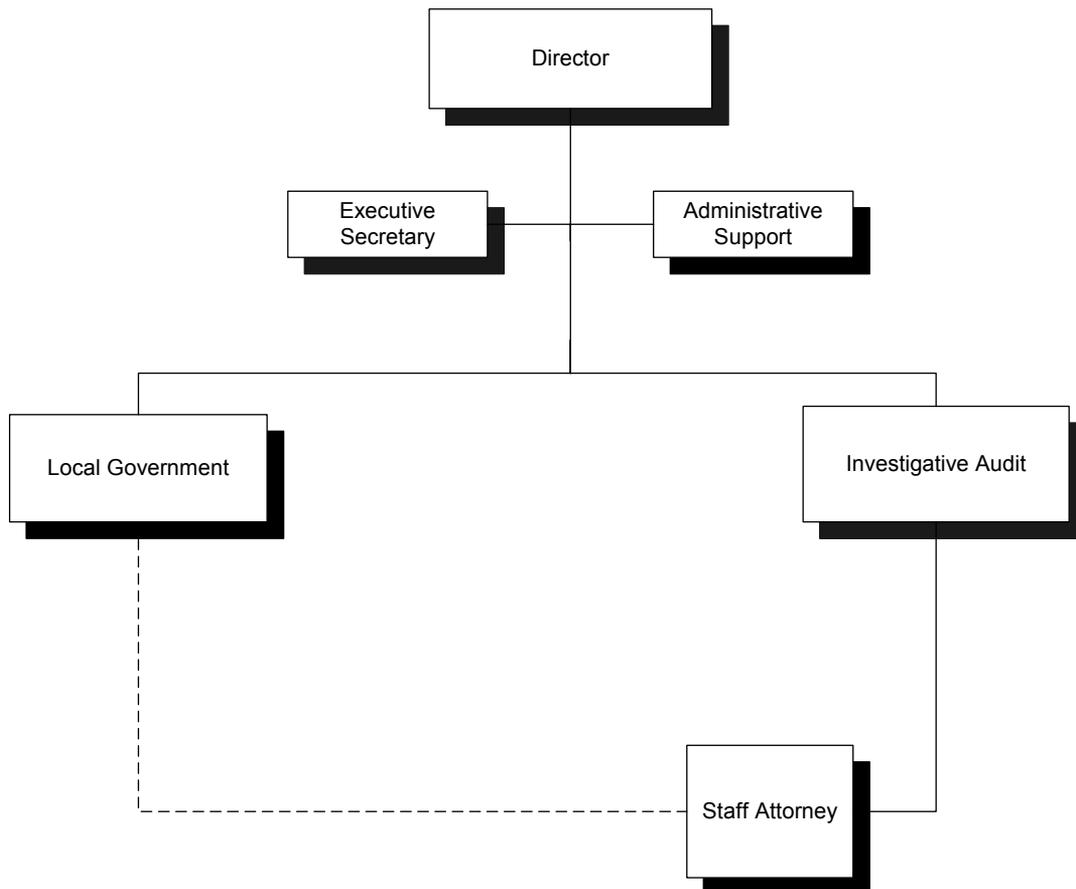
The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, charter schools, and certain nonprofit agencies receiving grants from the State of Tennessee. Also, as required by state statute, the division ensures that an agreed-upon procedures audit is performed for certain daycare providers receiving subsidy payments through the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in these entities.

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 345 municipalities, 97 city-related entities, 48 quasi governmental entities, 60 quasi nonprofit entities, 186 utility districts, 164 public school activity and noncentralized cafeteria funds, 85 housing authorities, 99 day care centers, and 168 nonprofit agencies. The entities use standard contracts, 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 or agreed-upon procedures 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.

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 tracking over 1,954 nonprofit organizations that have received 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 refers 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, 2005, 22 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 4 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 specified local governments and other publicly funded entities. Investigative audits are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, information received from certified public accountants, other state agencies, concerned citizens and/or officials, and requests received from local district attorney generals, the State Attorney General's Office, the FBI, and other prosecutorial and law enforcement agencies. Upon completion of each examination, 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 an investigative audit, 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, 2005, the Division of Municipal Audit performed 1,367 reviews of audit reports for specified local governments and other publicly funded entities. The division released 29 investigative audits during the year. The entities examined in the 29 investigative audits included 16 municipalities, 9 public schools, 2 nonprofit entities, and 2 utility districts. The majority of the investigative audits involved allegations of fraud, waste, and abuse. Most investigative audits revealed weaknesses in internal controls, absence of internal controls, or potential problem areas that created an environment conducive to fraud. During the 2005 fiscal year, investigative audits revealed losses of at least \$1,054,553 due to fraud. In total, over 9 defendants' cases were disposed of in fiscal year 2005. All defendants either pled guilty or entered into pretrial diversion agreements. Over 15 counts were dealt with. In all, defendants were ordered to pay restitution of \$220,757.

Highlights of Investigative Audits

**Crab Orchard Utility
District**

Our investigative audit focused on the period January 1, 2000, through March 31, 2003, and revealed numerous apparently fraudulent and/or unauthorized transactions, including those listed below:

- Former general manager apparently requested and received cash back totaling over \$53,000 from fraudulent utility district checks that she authorized and paid to a local contractor.
- Former general manager paid apparent false invoices submitted by a local contractor in amounts significantly greater than the value of the work performed.
- The utility district paid at least \$285,646.35 in apparently illegal and unauthorized "bonuses" to the former general manager, the daughter of the former general manager who was the assistant general manager, the son-in-law of the chairman of the board, and other select employees.
- The former general manager received two payroll payments totaling \$29,566.25 for which no documented authorization or purpose could be located. The former general manager and her daughter were also apparently significantly overpaid for unused personal leave. Additionally, several select employees were paid large salaries and/or bonuses and received pay raises of up to 86 percent. For perspective, the compensation of the former general manager in 2001 alone was \$199,731.53, and bonuses paid from January 1, 2000, through February 11, 2003, totaled \$253,047.14.

- The former general manager and former assistant general manager deprived the utility district of over \$10,000 in an apparently fraudulent transaction related to a utility district vehicle.
- The former general manager deprived the utility district of approximately \$10,000 in an apparently fraudulent transaction related to a utility district backhoe.
- The former general manager requested employees to cash district checks issued to the employees and remit the cash to her.
- District board minutes were altered or falsified to conceal illegal and/or unauthorized transactions.

On November 9, 2004, the Cumberland County Grand Jury indicted the former general manager on one count of Conspiracy to Commit Theft over \$10,000 (class C felony), one count of Conspiracy to Commit Theft over \$60,000 (class B felony), one count of Theft over \$60,000 (class B felony), one count of Forgery over \$60,000 (class B felony), two counts of Money Laundering (class B felonies), and one count of Official Misconduct (class E felony). On October 28, 2005, the defendant pled guilty to one count of Conspiracy to Commit Theft over \$60,000, one count of Theft over \$60,000, one count of Forgery over \$60,000, and two counts of Money Laundering. She is awaiting sentencing.

On November 9, 2004, the Cumberland County Grand Jury indicted the former assistant manager on one count of Conspiracy to Commit Theft over \$60,000 (class B felony), one count of Theft over \$60,000 (class B felony), one count of Forgery over \$60,000 (class B felony), two counts of Money Laundering (class B felonies), and one count of Official Misconduct (class E felony). On October 28, 2005, she pled guilty to one count of Conspiracy to Commit Theft over \$60,000, one count of Facilitation of Theft over \$60,000, and one count of Facilitation of Forgery over \$60,000, one count of Facilitation of Money Laundering, and one count of Official Misconduct. She is also awaiting sentencing.

On February 2, 2005, the Cumberland County Grand Jury indicted a former utility commissioner on one count of Conspiracy to Commit Theft over \$60,000 (class B felony), one count of Theft over \$60,000 (class B felony), one count of Forgery over \$60,000 (class B felony), and one count of Official Misconduct (class E felony). The defendant is currently awaiting trial.

**Rush Strong School –
Jefferson County Schools**

Our investigative audit revealed that during the period August 11, 2003, through December 10, 2003, the former bookkeeper failed to deposit school collections totaling at least \$6,837 into a school bank account. The former bookkeeper admitted to auditors that she had taken school money without authorization and used it for her personal benefit. Auditors also identified internal control weaknesses that helped create

an environment suitable for the misappropriation, including: inadequate separation of duties, collections not deposited promptly or intact, and prenumbered receipts not correctly issued.

On January 7, 2005, the Jefferson County Grand Jury indicted the defendant on one count of Theft over \$1,000, a class D felony. On June 20, 2005, the defendant pled guilty to the charged offense. Upon her plea, the trial court sentenced her to a four-year suspended sentence. As a condition of her sentence, she was ordered to make restitution to Rush Strong School in the amount of \$9,837.05.

Mt. Pleasant Power System

Our investigative audit revealed that during the period July 1, 2001, through September 30, 2003, \$138,551 in recorded collections were not deposited into a system bank account. In addition, there was an unexplained shortage of \$50,148 in the system's heat pump loan program. Original system records related to the shortage were unavailable for audit. A former cashier told auditors that she and the former office manager diverted system funds for their personal use.

On July 20, 2004, the Maury County Grand Jury indicted the former office manager on one count of Theft over \$60,000, a class B felony. The trial court sentenced the defendant to an eight-year suspended sentence. The defendant was required to pay \$63,000 in restitution to the Mt. Pleasant Power System.

On July 20, 2004, the Maury County Grand Jury indicted the former cashier on one count of Theft over \$60,000, a class B felony. The defendant pled guilty to Theft over \$10,000, a class C felony. The trial court sentenced her to a three-year suspended sentence and ordered her to pay restitution in the amount of \$15,000.

Lakeway Center for the Handicapped, Incorporated

Our investigative audit revealed that during the period July 1, 2001, through April 30, 2004, the former director of finance took or used agency funds totaling \$46,260 to which she was not entitled for her personal benefit. She acknowledged to auditors that she had been in a financial crisis and took the funds to pay for family necessities. Auditors discovered that the former director of finance gave herself unapproved salary supplements, salary raises, and insurance benefits. In addition, auditors uncovered that she had paid for personal charges on the agency credit card with agency funds.

On October 11, 2004, the Hamblen County Grand Jury indicted the former director of finance on one count of Theft over \$10,000, a class C felony. On March 7, 2005, the defendant entered into a pretrial diversion agreement with the district attorney's office to suspend prosecution of the defendant for 24 months. The agreement provided that if the defendant did not further violate the law and made restitution in the amount of \$46,260 to the Lakeway Center for the Handicapped, that charges would be dismissed. In addition, the defendant must perform 250 hours of public service work as a condition of the diversion.

**Parsons Elementary
School – Decatur County
Schools**

Our investigative audit revealed that during the period July 1, 2002, through February 29, 2004, the former bookkeeper apparently misappropriated cafeteria collections of at least \$21,574 and vending commission collections of at least \$860. In addition, the former bookkeeper apparently destroyed and removed cafeteria records from the school. Auditors also identified the following internal control weaknesses that contributed to the misappropriation: inadequate separation of duties, collections not deposited promptly or intact, prenumbered receipts not issued, and several other weaknesses.

The Decatur County Grand Jury indicted the former bookkeeper on one count of Theft over \$10,000, a class C felony. On March 23, 2005, the defendant pled guilty to the charge. Upon her plea of guilty, the trial court sentenced her to a three-year suspended sentence. She was placed on supervised probation. As a condition of her sentence, she was ordered to pay restitution in the amount of \$21,574 to the Decatur County Board of Education.

**Granbery Elementary
PTA/PTO – Metro
Nashville Schools**

Our investigative audit revealed that during the period January 1, 2002, through April 30, 2003, a former officer of the Parent Teacher Association/Parent Teacher Organization (PTA/PTO) diverted more than \$140,000 from Granbery PTA/PTO bank accounts to which she was not entitled. She issued at least 150 checks payable to herself for which auditors could not determine any legitimate or authorized purpose. At least 100 of these checks included a second signature of a current or former PTA/PTO officer who told auditors that they had not co-signed the checks. The former PTA/PTO officer also altered receipts and documents in an attempt to conceal the true nature of the transactions. The former PTA/PTO officer acknowledged to auditors that she probably took, without authority and for her personal benefit, between \$75,000 and \$100,000 from the Granbery Elementary PTA/PTO.

Auditors discovered that the former PTA/PTO officer circulated a letter soliciting donations to the PTA/PTO on behalf of a fund created to benefit the family of a Granbery Elementary student who had been diagnosed with a brain tumor. However our audit disclosed that the former PTA/PTO officer did not remit at least \$720 of the funds collected as a result of that solicitation, but diverted the money to her personal bank account.

In December 2004, the Davidson County Grand Jury indicted the former PTA/PTO officer on one count of Theft over \$60,000 and one count of Forgery over \$60,000, both class B felonies. In August 2005, the Davidson County Grand Jury returned superseding indictments charging her with nine criminal charges, including one count of Theft over \$60,000 (class B felony), one count of Theft over \$1,000 (class D felony), one count of Forgery over \$60,000 (class B felony), two counts of Forgery over \$1,000 (class D felonies) and four counts of Money Laundering (class B felonies). The defendant is currently awaiting trial.

**City of Adamsville –
Department of Public
Works**

Our investigative audit revealed that during the period July 1, 2001, through March 11, 2004, the Adamsville Department of Public Works incurred an unexplained water pipe shortage of 6,722 feet costing \$11,373. The former public works director told auditors that he was unaware of any water pipe shortage. Auditors also noted that several work orders prepared by the former director were for work that was never actually completed. Auditors also found that the former director, on at least two occasions, sold water pipe to local developers. In one instance, he purchased the water pipe using the city account and as a result, did not pay the required sales taxes.

Our investigative audit also revealed that the former director had failed to obtain the required Department of Environment and Conservation approval on at least five water line extensions. In addition, the Adamsville Public Works Department did not maintain documentation of bacteriological results indicating adequacy of disinfection procedures of newly constructed water distribution lines.

The former public works director was terminated by the city.

**Mt. Pleasant Middle
School – Maury County
Schools**

Our investigative audit revealed that during the period July 1, 2003, through June 30, 2004, apparently \$7,291 in school collections were not receipted and deposited into a school bank account. The former bookkeeper admitted to auditors that she took the money from the school without authority for her own personal benefit. She also admitted to auditors that she falsified records to conceal the misappropriation. Auditors also identified the following internal control weaknesses that contributed to the misappropriation: inadequate separation of duties, collections not deposited promptly or intact, prenumbered receipts not issued, monthly reports not issued, and several other weaknesses.

On July 7, 2005, the Maury County Grand Jury indicted the former bookkeeper on one count of Theft over \$1,000, and fifteen counts of Forgery less than \$1,000, all class D felonies. The defendant is currently awaiting trial.

**Selmer Utility Division –
Collection Records**

Our investigative audit revealed that during the period May 1, 2000, through July 31, 2004, a former utility clerk misappropriated at least \$46,814 in utility department collections. The former clerk acknowledged to auditors that she took funds without authority for her own personal benefit. Auditors also identified the following internal control weaknesses that contributed to the misappropriation: inadequate separation of duties, collections not deposited promptly or intact, prenumbered receipts not issued, and several other weaknesses.

On February 22, 2005, the McNairy County Grand Jury indicted the defendant on one count of Theft over \$10,000, a class C felony. On October 12, 2005, the defendant pled guilty to the charge. She was sentenced to three years probation and ordered to pay \$52,872 in restitution.

Recent Developments Related to Prior Years' Investigative Audits – Dispositions

Cherokee Children and Family Services, Inc.

Willie Ann Madison, the former executive director was sentenced to 21 months in prison and was ordered to pay \$750,000 in fines. Her husband, John Madison, was sentenced to 10 months in prison, 10 months of house arrest, and ordered to pay \$500,000 in fines.

City of Rockwood

On June 7, 2004, the Roane County Grand Jury indicted David Woods on one count of Theft over \$10,000. The defendant had previously been indicted for four counts of Official Misconduct. On May 13, 2005, the defendant pled nolo contendere to one count of Theft over \$1,000. The four counts of Official Misconduct were dismissed. The trial court sentenced the defendant to two years and required him to initially serve 30 days of the sentence in jail. The remainder of the sentence is to be served on probation with a condition of the sentence that the defendant pay restitution in the amount of \$9,600 to the City of Rockwood Youth Athletic Program.

William Cisson pled guilty to 14 counts of Theft over \$1,000, one count of Theft over \$10,000, and one count of Theft over \$60,000. He received a 10-year sentence and was ordered to make restitution in the amount of \$125,055. The method of service for the 10-year sentence will be determined at a later hearing.

Recent Developments Related to Prior Years' Investigative Audits – Indictments

Town of Benton

In April 2004, the Polk County Grand Jury indicted a former clerk on one count of Official Misconduct and one count of Theft over \$1,000. The defendant is currently awaiting a trial date.

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, 2004, the association's most recent award year completed as of December 2005.

State of Tennessee
Anderson County
Blount County
Bradley County
Bristol Tennessee Electric System
City of Athens
City of Bartlett
City of Brentwood
City of Bristol
City of Chattanooga
City of Cleveland
City of Columbia
City of Etowah
City of Franklin
City of Gallatin
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 Morristown
City of Murfreesboro
City of Norris
City of Oak Ridge
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
Public Building Authority of the County of Knox and the City of
Knoxville
Rutherford County

Shelby County
Tennessee Consolidated Retirement System
Tennessee State School Bond Authority
Town of Collierville
Town of Farragut
Town of Livingston
Town of Smyrna
Tri-Cities Airport Commission
West Knox Utility District of Knox County

Professional Recognition

During the year ended June 30, 2005, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), Certified Information Systems Auditor (CISA), and Certified Professional Secretary (CPS).

Amy Abbott	State Audit	CFE
Nathan Abbott	County Audit	CISA, CFE
Robin Bates	County Audit	CFE
Debra Bloomingburg	State Audit	CFE
William Bright	Municipal Audit	CFE
Bryan Burklin	County Audit	CGFM
Jessica Cox	County Audit	CGFM
Valerie English	State Audit	CFE
Tammy Fruscione	State Audit	CGFM
John Gullett	State Audit	CFE
Wendy Heath	County Audit	CFE
Philip Latham	County Audit	CFE
Rodney Malin	County Audit	CGFM
Amy Moore	County Audit	CGFM
Richard Murray	State Audit	CFE
Chris Risher	State Audit	CFE
Lewis Robbins	Municipal Audit	CFE
Thad Sanders	State Audit	CPA
Doug Sandidge	County Audit	CISA
Andy Summar	State Audit	CPA, CFE
Patty Vargo	County Audit	CFE
Jonathan Ward	State Audit	CFE
Lisa White	State Audit	CFE
Michael Wilbanks	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	Deborah Loveless
Ron Anderson	Derek Martin
Mason Ball	Sammie Maxwell
Catherine Balthrop	Jeff McClanahan
Debra Bloomingburg	Martha McClune
Gerry Boaz	Jay Moeck
Melissa Boaz	Karen Phillips
Walter Bond	Steve Phillips
Charles Bridges	Robyn Probus
Edward Burr	Chuck Richardson
Mary Cole	Julie Rogers
Donna Crutcher	Brent Rumbley
Michelle Earhart	Thad Sanders
Michael Edwards	Joseph Schussler
Gregg Hawkins	Suzanne Smotherman
Arthur Hayes	Scarlet Sneed
Shirley Henry	Andy Summar
Teresa Hensley	Kandi Thomas
Marcia Holman	Judy Tribble
Bob Hunter	Rebecca Troyani
Aaron Jewell	Clare Tucker
Donna Jewell	Wendell Voss
Teresa Kennedy	Patricia Wakefield
Herb Kraycirik	Dan Willis

Division of County Audit

Penny Austin	Joe Kimery
Jeff Bailey	Kelley McNeal
Nolan Bradford	Jan Page
Sharee Brewer	Gary Ramsey
Brad Burke	Steve Reeder
Bryan Burklin	Anita Scarlett
Melissa Darby	David Sturtevant
Jerry Durham	Lester Tackett
Marie Elliott	Christy Tennant
Michael Ford	Mark Treece
Amy Hembree	Clifford Tucker
Kevin Huffman	Andrew Way
Michael Hulme	Kent White
Wilma Johnston	Greg Worley

Division of Municipal Audit

Robert Allen	Timothy Hardy
Lisa Bellar (inactive)	Philip Job
Rene Brison	Greg Lawrence
Rebecca McElrath	Michael Mayhan
Bill Case	Sheila Reed
Dennis Dycus	Lewis Robbins
Iris Haby	Jean Suh

Amy Abbott	Tabitha Peden
Ron Anderson	Beth Pendergrass
Mason Ball	Valerie Petty
Debra Bloomingburg	Steve Phillips
Melissa Boaz	Scott Price
Walter Bond	Sheilah Pride
Ike Boone	Robyn Probus
Bridget Carver	Barbara Ragan
Jennifer Cawthon	Alicia Reed
Donna Crutcher	Chris Risher
Melinda Crutchfield	Brent Rumbley
Nichole Curtiss	Scarlet Sneed
Cindy Liddell	Andy Summar
Valerie English	Kandi Thomas
Treesie Farmer	Tammy Thompson
John Gullett	Judy Tribble
Drew Hawkins	Rebecca Troyani
Gregg Hawkins	Clare Tucker
Arthur Hayes	Inger Tyree
Amanda Hoback	Helen Vose
Aaron Jewell	Patricia Wakefield
Donna Jewell	Jonathan Ward
Jacqueline Laws	Lisa White
Harry Lee	Jennifer Whitsel
Derek Martin	Michael Wilbanks
Mary McCalip	Clementine Williams
Bob McCloud	Melissa Wilson
Glen McKay	David Wright
Jay Moeck	Sonja Yarbrough
Richard Murray	

Division of County Audit

Nathan Abbott	Wendy Heath
Jeff Bailey	Wilma Johnston
Robin Bates	Joe Kimery
Doug Bodary	Philip Latham
Sharee Brewer	Steve Reeder
Rachelle Bunch	David Sturtevant
Rhonda Davis	Patty Vargo
Jerry Durham	Kent White
Sherrie Gill	

Division of Municipal Audit

Robert Allen	Philip Job
William Bright	Michael Mayhan
Rene Brison	Lewis Robbins
Dennis Dycus	

Certified Government Financial Manager**Division of State Audit**

Dean Agouridis	Derek Martin
Katherine Anderson	Sammie Maxwell
Ron Anderson	Jennifer McClendon
Mason Ball	Bob McCloud
Debra Bloomingburg	Glen McKay
Gerry Boaz	Beth Pendergrass
Charles Bridges	Steve Phillips
Edward Burr	Robyn Probus
Mary Cole	Chuck Richardson
Donna Crutcher	Randy Salt
Michael Edwards	Joseph Schussler
Tammy Fruscione	Suzanne Smotherman
Arthur Hayes	Scarlet Sneed
Shirley Henry	Kandi Thomas
Teresa Hensley	Clare Tucker
Marcia Holman	Patricia Wakefield
Aaron Jewell	Lisa Williams
Diana Jones	Dan Willis
Herb Kraycirik	Dena Winningham
Deborah Loveless	

Division of County Audit

Art Alexander	Joe Kimery
Jim Arnette	Carl Lowe
Penny Austin	Rodney Malin
Jeff Bailey	Kelley McNeal
Marvin Bond	Amy Moore
Nolan Bradford	Norm Norment
Sharee Brewer	Richard Norment
Bryan Burklin	Bob Powell
Kathi Burriss	Ferman Pride
Kathy Clements	Steve Reeder
Jessica Cox	Keith Rice
Jerry Durham	June Rogers
Michael Ford	David Sturtevant
David Frakes	Lester Tackett
Eugene Hampton	Lee Ann West
Kevin Huffman	Kent White
Michael Hulme	Horace Wiseman
Wilma Johnston	Greg Worley

Division of Municipal Audit

Dennis Dycus

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
Wendell Voss
Dan Willis

Division of County Audit

Nathan Abbott
Jim Arnette

Penny Austin
Doug Sandidge

Certified Professional Secretary**Division of State Audit**

Tushama Harden

Paula Null

Division of County Audit

Sweeking Bataille
Theresa Gervin

Karen Patterson

Division of Municipal Audit

Rosemary Dixon

**State Audits Released
During the Year Ended
June 30, 2005****Financial and Compliance Audits****State Departments, Agencies, and Institutions**

CAFR 2004

Clean Water State Revolving Fund

Department of Children's Services (November 2004)

Department of Children's Services (June 30, 2004)

Department of Commerce and Insurance

Department of Education (December 2004)

Department of Education (June 30, 2004)

Department of Environment and Conservation

Department of Finance and Administration

Department of Financial Institutions

Department of General Services

Department of Health (February 2005)

Department of Health (June 30, 2004)

Department of Human Services

Department of Labor and Workforce Development

Department of Personnel

Department of Revenue

Department of the Treasury

Department of Transportation (June 30, 2004)

Department of Transportation (May 2004)

Department of Veterans Affairs

District Attorneys General Conference

District Public Defenders Conference

Local Government Group Insurance Fund

Medicare Supplement Insurance Fund

Office of the Executive Director of the Dist. Attorneys General Conf.

**State Audits Released
During the Year Ended
June 30, 2005 (Cont.)**

Office of Legislative Administration
Office of the Comptroller of the Treasury
Single Audit 2004
Teacher Group Insurance Fund
Tennessee Advisory Commission on Intergovernmental Relations
Tennessee Board of Regents System Office
Tennessee Consolidated Retirement System
Tennessee Education Lottery Corporation
Tennessee Executive Residence Foundation (2004)
Tennessee Executive Residence Foundation (2003)
Tennessee Higher Education Commission
Tennessee Housing Development Agency
Tennessee Human Rights Commission
Tennessee Local Development Authority
Tennessee State School Bond Authority
Tennessee Student Assistance Corporation (2004)
Tennessee Student Assistance Corporation (2003)

Universities, Colleges, and Foundations

East Tennessee State University
Endowment for Educational Excellence – TSU
Jackson State Community College
Middle Tennessee State University
Nashville State Technical Community College
Northeast State Technical Community College
Pellissippi State Technical Community College
Roane State Community College
Roane State Community College Foundation
Southwest Tennessee Community College
Tennessee State University
Tennessee State University Geier Endowment
Tennessee Technological University Dormitory Corporation
University of Memphis
University of Tennessee
University of Tennessee Radio Station (WUOT)
Walters State Community College

Community Services Agencies

Davidson County Metropolitan Community Services Agency
East Tennessee Community Services Agency
Hamilton County Community Services Agency
Knox County Community Services Agency
Mid Cumberland Community Services Agency
Northwest Community Services Agency
South Central Community Services Agency
Southeast Community Services Agency
Southwest Community Services Agency

**State Audits Released
During the Year Ended
June 30, 2005 (Cont.)**

TennCare Audits

Brookewood Nursing Center
Chester County Nursing Home
Hancock Manor
Mariner Health of Nashville
Meharry Medical College
Obion County Nursing Home
Palmyra/New Dawn Health Care
Premier Behavioral Systems of Tennessee
Salem Villages of Tennessee
Tennessee Behavioral Health
Tennessee State Veterans' Home – Humboldt
Tennessee State Veterans' Home – Murfreesboro

Performance Audits

Department of Commerce and Insurance Follow-up Report
Department of Economic and Community Development and Office
of Business Enterprise
Division of Mental Retardation Services, Department of Finance
and Administration
Northwest Community Services Agency
Southwest Community Services Agency
University of Tennessee Board of Trustees
Professional Regulatory Boards

Special Investigations

Tennessee Board of Regents Lead Center, Tennessee Small Business
Development Center Network, Review of Two Contracts Awarded
to Jungle Marketing, Inc.
Letter Report to Governor Bredesen, Department of Tourist
Development, Ackermann PR Contract, News Production and
Distribution Services

Waste and Abuse

Issues Related to the Contract Between the Division of Mental
Retardation Services, Clover Bottom Developmental Center,
and Action Rehabilitation Services, Inc.: Department of Mental
Health and Developmental Disabilities, Department of Finance
and Administration

**County Audits Released
During the Year Ended
June 30, 2005**

**Financial and Compliance
Comprehensive Annual Financial Reports
For the Year Ended June 30, 2004**

Counties

Anderson	Hamblen	Morgan
Bedford	Hancock	Obion
Benton	Hardeman	Overton
Bledsoe	Hardin	Perry
Blount	Hawkins	Pickett
Bradley	Haywood	Polk
Campbell	Henderson	Putnam
Cannon	Henry	Rhea
Carroll	Hickman	Roane
Carter	Houston	Robertson
Cheatham	Humphreys	Rutherford
Chester	Jackson	Scott
Claiborne	Jefferson	Sequatchie
Clay	Johnson	Sevier
Cocke	Lake	Smith
Coffee	Lauderdale	Stewart
Crockett	Lawrence	Sullivan
Cumberland	Lewis	Tipton
Decatur	Lincoln	Trousdale
DeKalb	Loudon	Unicoi
Dickson	Macon	Union
Dyer	Madison	Van Buren
Fayette	Marion	Warren
Fentress	Marshall	Wayne
Franklin	Maury	Weakley
Gibson	McNairy	White
Giles	Meigs	Williamson
Grainger	Monroe	Wilson
Greene	Montgomery	
Grundy	Moore	

Special School Districts

Paris Special School District
McKenzie Special School District

**County Audits Released
During the Year Ended
June 30, 2005 (Cont.)**

Information System Reviews

Anderson	DeKalb	Monroe
Bedford	Fentress	Montgomery
Benton	Grundy	Moore
Bledsoe	Hardeman	Overton
Blount	Hardin	Rhea
Bradley	Hawkins	Robertson
Campbell	Humphreys	Smith
Ceatham	Jackson	Stewart
Chester	Johnson	Sullivan
Claiborne	Lincoln	Unicoi
Clay	Loudon	Van Buren
Cocke	Macon	White
Cumberland	Marion	
Decatur	McNairy	

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, 2002, through June 30, 2003)

Limited Review of the Anderson County Probation Department (For the Period July 1, 1999, through June 30, 2003)

Limited Review of the McNairy County Irving Meek and Jack McConnico Libraries (For the Period July 1, 2002, through January 31, 2004)

Limited Review of the Office of County Trustee, Shelby County, Tennessee (For the Period July 1, 2001, through January 31, 2003)

**Municipal Audit
Investigative Audit
Reports Released
During the Year Ended
June 30, 2005**

Lexington Water Systems
Mt. Pleasant Power System
Habilitation and Training Services, Inc.
City of Williston
Lexington Electric System
Town of Englewood
Lakeway Center for the Handicapped, Inc.
Poplar Grove Utility District
Town of Scotts Hill
South Doyle High School – Knox County Schools
City of Murfreesboro (real property acquisition)
Crab Orchard Utility District
City of Jamestown Police Department – Drug Fund
Hamilton High School – Memphis City Schools
Rush Strong School – Jefferson County Schools
Parsons Elementary School – Decatur County Schools
Unicoi Elementary School – Unicoi County Schools
Granbery Elementary PTA/PTO – Metro Schools
Selmer Utility Division
Elizabethton Electric System
Town of Mosheim
Lenoir City Court – FOLE
City of Adamsville – Department of Public Works
Mt. Pleasant Power System II
Westwood Elementary PAT – Manchester City Schools
Mt. Pleasant Middle School – Maury County Schools
City of Memphis – General Services
Etowah Police Department
Jefferson Elementary School – Fayette County Schools

NSAA

National State Auditors Association

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

**Quality Control Review
For the Period July 1, 2003
through June 30, 2004**

REPORT

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



National State Auditors Association

October 19, 2004

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 of July 1, 2003 through June 30, 2004. 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 peer reviews established by the National State Auditor's Association (NSAA). In performing our review, we obtained an understanding of the department's system of quality control for engagements 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 of July 1, 2003 through June 30, 2004 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 Peer Review Team


Concurring Reviewer
National State Auditors Association
External Peer Review Team

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444 N. Capitol Street, NW, Suite 234, Washington, DC 20001, Telephone (202) 624-5451, Fax (202) 624-5473
www.nasact.org

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**Comptroller of the Treasury
Department of Audit
Schedule of Revenues, Expenditures, and Reserves
For the Years Ended June 30, 2005, and June 30, 2004**

	Year Ended June 30, 2005				Year Ended June 30, 2004			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUES								
Appropriation	9,436,600.00	6,384,600.00	1,362,100.00	17,183,300.00	8,734,800.00	5,912,400.00	1,264,600.00	15,911,800.00
Departmental revenues	4,092,042.79	681,750.03	173,675.42	4,947,468.24	3,923,300.83	920,180.25	260,299.47	5,103,780.55
Total revenues	13,528,642.79	7,066,350.03	1,535,775.42	22,130,768.24	12,658,100.83	6,832,580.25	1,524,899.47	21,015,580.55
Total reserves and revenues	13,528,642.79	7,066,350.03	1,535,775.42	22,130,768.24	12,658,100.83	6,832,580.25	1,524,899.47	21,015,580.55
EXPENDITURES								
Personal services	9,063,099.14	4,686,332.92	1,020,555.90	14,769,987.96	8,465,886.95	4,408,736.98	986,668.61	13,861,292.54
Employee benefits	2,852,090.10	1,488,953.32	310,671.22	4,651,714.64	2,372,594.44	1,239,434.37	267,012.16	3,879,040.97
Total payroll	11,915,189.24	6,175,286.24	1,331,227.12	19,421,702.60	10,838,481.39	5,648,171.35	1,253,680.77	17,740,333.51
Travel	534,858.81	427,015.99	42,281.25	1,004,156.05	522,697.07	378,823.20	61,197.68	962,517.95
Printing, duplicating, and film processing	58,732.51	100,936.43	5,354.70	165,223.64	66,601.42	105,568.54	5,418.91	177,588.87
Communication and shipping costs	17,555.56	26,790.38	7,128.51	51,474.45	15,442.82	30,659.93	5,785.59	51,888.34
Maintenance, repairs, and service	74,036.13	65.00	349.47	74,450.60	39,361.79	114.75	-	39,476.54
Professional and administrative services	163,275.36	59,464.65	4,250.54	226,990.55	103,343.75	53,891.97	4,406.77	161,642.49
Supplies	26,227.08	11,522.21	5,498.94	43,248.23	27,704.12	13,171.78	4,298.83	45,174.73
Rentals and insurance	402,490.16	126,290.78	66,536.00	595,316.94	485,212.88	152,429.15	66,436.00	704,078.03
Motor vehicle operations	-	70.00	-	70.00	-	-	-	-
Awards and indemnities	84.15	-	-	84.15	528.71	200.00	-	728.71
Grants and subsidies	59,662.82	22,792.74	4,109.10	86,564.66	17,436.25	2,785.99	1,787.15	22,009.39
Equipment	-	-	-	-	5,058.33	-	-	5,058.33
Billings and records management	34,320.15	19,574.30	6,054.87	59,949.32	33,468.54	19,869.17	5,771.40	59,109.11
Total other	1,371,242.73	794,522.48	141,763.38	2,307,528.59	1,316,855.68	757,314.48	155,102.33	2,229,272.49
Total current year	13,286,431.97	6,989,808.72	1,472,990.50	21,729,231.19	12,155,337.07	6,405,485.83	1,408,783.10	19,969,606.00
Excess of reserves and revenues over expenditures	\$ 242,210.82	\$ 96,541.31	\$ 62,784.92	\$ 401,537.05	\$ 502,763.76	\$ 427,094.42	\$ 116,116.37	\$ 1,045,974.55
Reserves carried forward for encumbrances	\$ 7,099.54	\$ -	\$ -	\$ 7,099.54	\$ -	\$ -	\$ -	\$ -
Amount reverting	235,111.28	96,541.31	62,784.92	394,437.51	502,763.76	427,094.42	116,116.37	1,045,974.55
Total	\$ 242,210.82	\$ 96,541.31	\$ 62,784.92	\$ 401,537.05	\$ 502,763.76	\$ 427,094.42	\$ 116,116.37	\$ 1,045,974.55

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