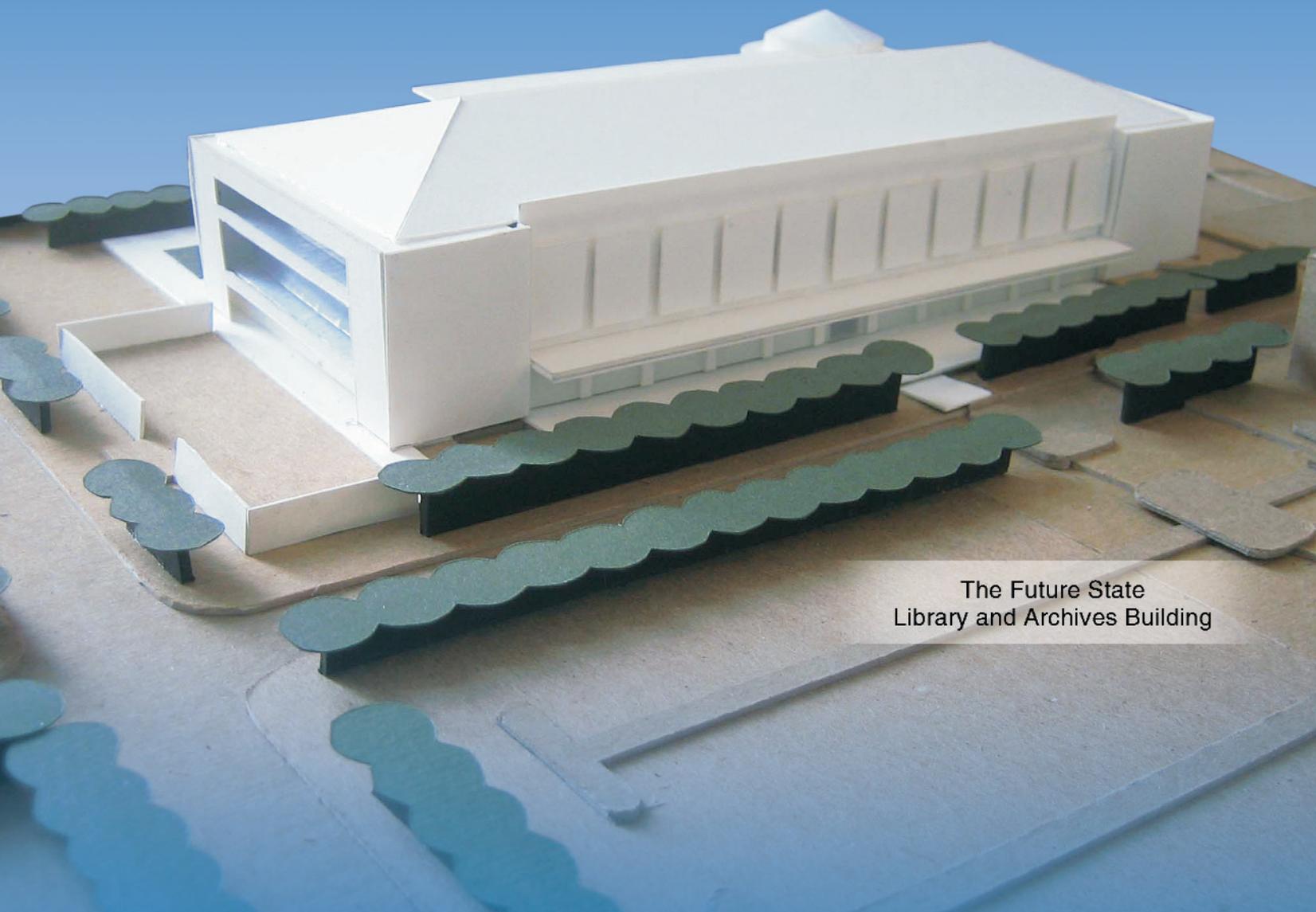


State of Tennessee
Department of Audit
2006 Annual Report



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John G. Morgan
Comptroller of the Treasury

Department of Audit
2006 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, 2006

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 2006 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

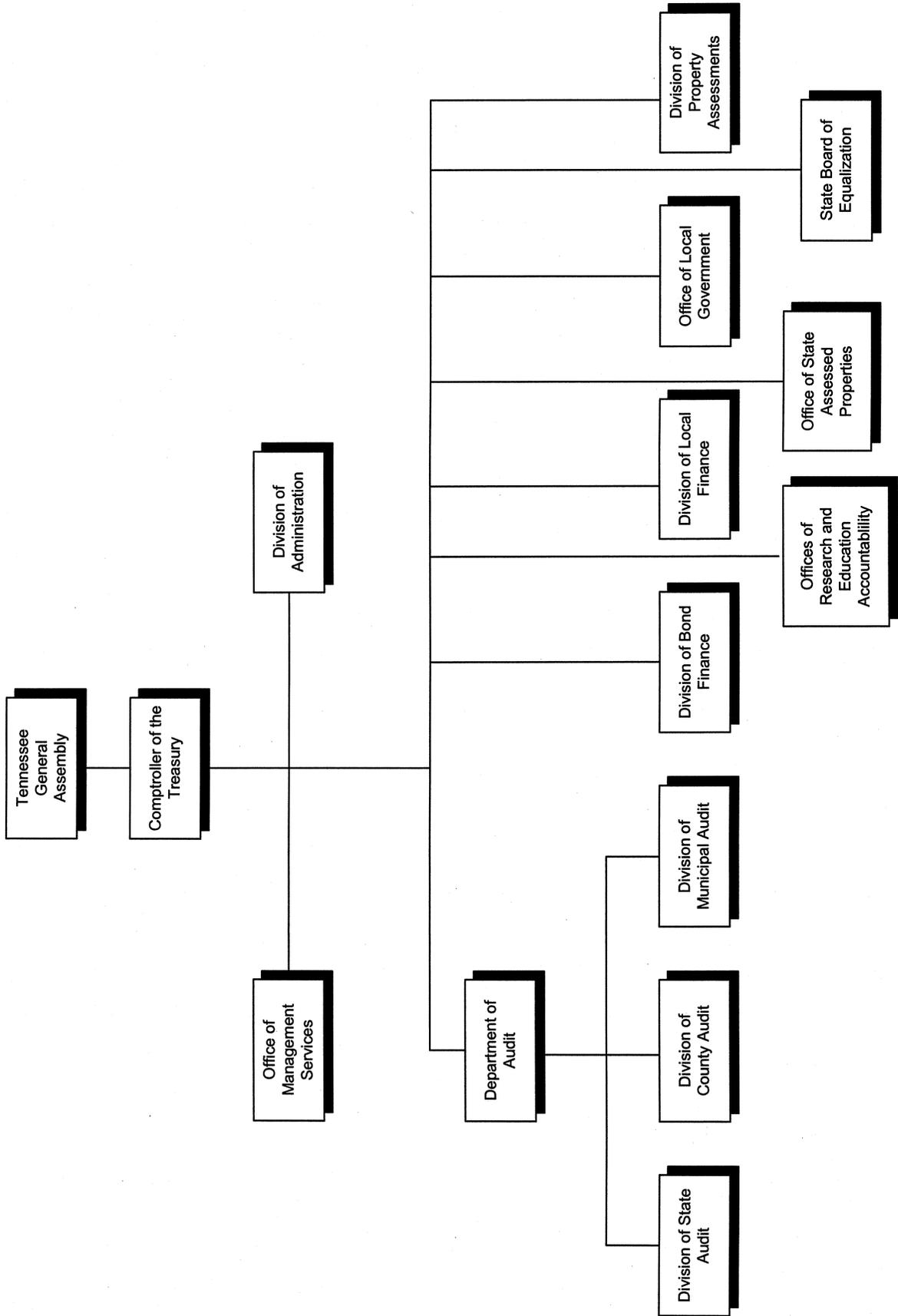
Dale Sims
State Treasurer

Robert E. Cooper
Attorney General and Reporter

Dave Goetz
Commissioner of Finance and Administration

William M. Barker
Chief Justice of the Supreme Court

Office of the Comptroller of the Treasury



Office of the Comptroller of the Treasury

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

Advisory Commission on Intergovernmental Relations
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
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 GIS/Mapping

The Office of Local Government GIS/Mapping develops and uses geographic information systems (GIS) technology to assist the Division of Property Assessments and local assessors of property in daily operations. GIS is also used to assist local governments with redistricting. The office serves as the liaison with the U.S. Census Bureau and participates in its Redistricting Data Program. Using Census data, the office produces digital maps, as well as publishing county commission districts and voting precinct maps. Using GIS technology, various statistics, maps, and reports are generated to support legislative research projects. The office is also actively involved with the Tennessee Base Mapping Program, which provides data conversion, implementation, and map maintenance to local governments.

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.

Strategic Planning

The Comptroller of the Treasury began Strategic Planning in December 2002 and completed its first strategic plan in September 2003 (FY 2003-04). Since that time, there have been many changes and improvements made to the original plan. Each division has developed a plan in accordance with the strategic planning framework as outlined on the following page.



Comptroller of the Treasury



Strategic Plan Framework

Mission

To improve the quality of life for all Tennesseans by making government work better

Purpose

To serve the people of Tennessee by:

- Contributing to the protection of the public trust and promoting the public interest
- Enhancing effective public policy decisions at all levels of government
- Fulfilling operational and oversight responsibilities as may be assigned with the highest possible degree of excellence, efficiency, and effectiveness

Goals and Objectives

Assure public resources are used effectively, efficiently and in compliance with applicable law

- Exercise an oversight role of governmental entities and agencies
- Develop a process to evaluate the effectiveness and efficiency of resources used by each division
- Ensure the secure, efficient, and effective use of technology solutions

Accomplish and provide continuous improvement for the statutory and other assigned responsibilities of the Comptroller's Office

- Use cross-divisional teams to address office-wide themes
- Advance the Comptroller's Office to a performance-based operation

Provide timely, adequate, and accurate information to decision makers at all government levels

- Implement and maintain a process to develop appropriate information for decision makers
- Maintain a process to provide decision makers with appropriate information concerning policy, resource use, and management
- Encourage cooperation and joint efforts among divisions

Provide a diverse, competent, ethical and professional staff and maintain continual development of such staff

- Adhere to a uniform Code of Ethics Program
- Maintain a succession plan for management
- Maintain a training program for the continual development of all staff
- Seek a healthy and safe work environment
- Develop and maintain a compensation review plan
- Maintain a recruiting and hiring process that promotes diversity

Provide and maintain effective communication with internal and external audiences

- Implement and maintain a program to coordinate timely communications using the best available technology
- Maintain appropriate historical information
- Inform and educate the citizens of the state, the general assembly, and other government entities about the role of the Comptroller
- Maintain a pro-active presence in professional organizations and associations

Core Values

Honesty and Integrity

Accuracy and Reliability

Accountability

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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 60 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, 2006, 178 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, 2006, 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.

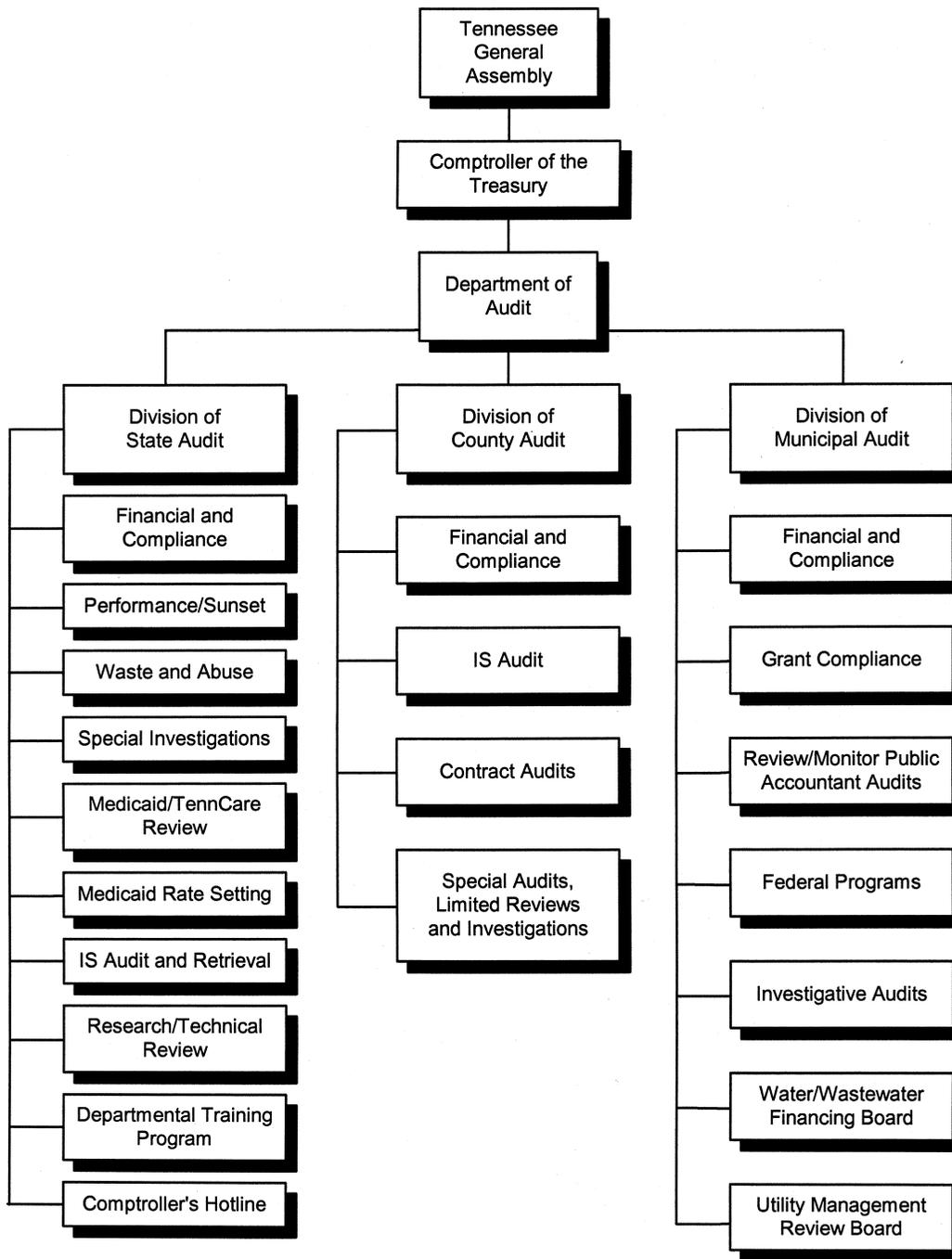
Members of the staff also participate in the following professional organizations:

- 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



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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 and a past national treasurer 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 past president of the Tennessee Government Finance Officers Association.

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 and 2006, 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
Electronic Government Committee and Auditor Training Committee Vice-Chair—Dan Willis, Division of State Audit
Performance Audit Committee Vice-Chair and Peer Review Committee—Deborah Loveless, Division of State Audit
Single Audit Committee and Audit Standards and Reporting Committee—Gerry Boaz, Division of State Audit
- Government Finance Officers Association
Committee on Accounting, Auditing and Financial Reporting—Gerry Boaz
- Association of Government Accountants
Financial Management Standards Board—Kathy Anderson, Division of State Audit
Senior Vice President, Bylaws and Procedures Committee Chair, and 2007 Professional Development Conference Host Committee Chair—Deborah Loveless
- National Association of State Auditors, Comptrollers, and Treasurers
2007 Annual Conference Committee—Deborah Loveless
- 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, 2006, the GASB had issued 47 authoritative standards, 3 concept statements, 6 interpretations, and 13 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 July 2006 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, 2006, 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, 2005, through June 30, 2006, 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 2008.

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 "Internal Control" to "Auditing the State's Automated Systems."

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 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-fifth 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 Director;
Co-Chair, Website Committee
- Jim Arnette Immediate Past Regional Vice-
President, Southeast Region
- Penny Austin Director;
Chair, Meetings and Attendance
Committee

State Audit

- Kathy Anderson Director;
Co-Chair, Meetings and Attendance
Committee
- Gerry Boaz President;
Certified Government Financial
Management Coordinator, Southeast
Region
- Nichole Curtiss Director;
Chair/Editor, Newsletter Committee
- Tammy Fruscione Secretary
- Teresa Hensley Treasurer

Donna Jewell	Co-Chair, Education Committee
Teresa Kennedy	Co-Chair, Program Committee
Suzanne Smotherman	Chair, Finance Committee
Tammy Thompson	Chair, Community Service Committee
Dan Willis	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 a board member and Immediate Past President, and Beth Pendergrass of State Audit is secretary and newsletter editor. Rene Brison of the Division of Municipal Audit is Vice President, Lewis Robbins of Municipal Audit is chair of the Website Committee, and Dennis Dycus of Municipal Audit is President-Emeritus and a member of the ACFE Foundation.

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



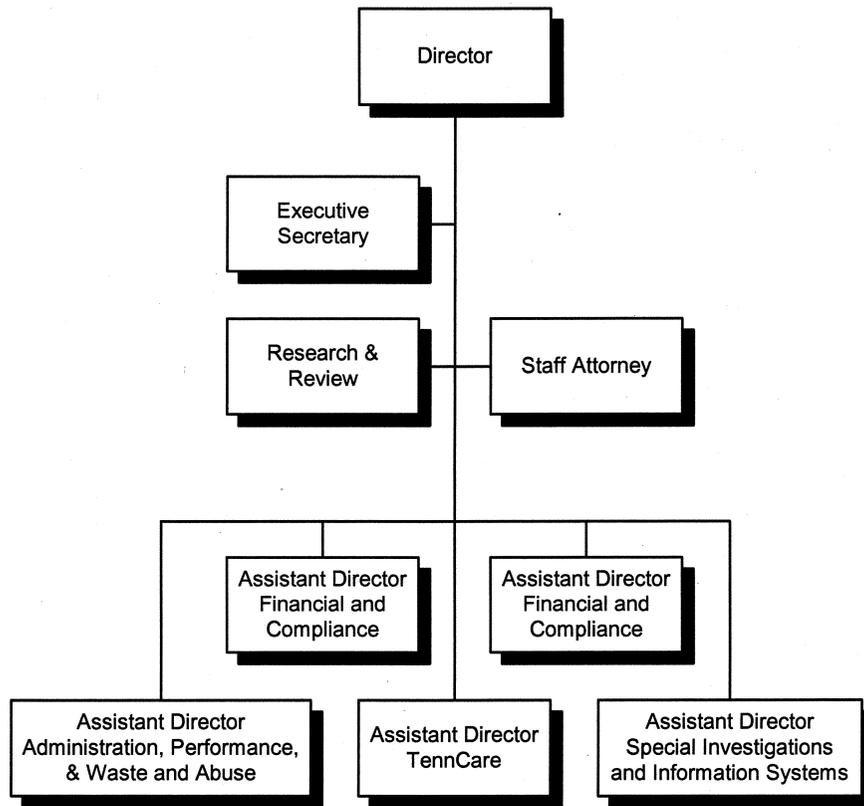
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA
Director**

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 80 reports during the year ended June 30, 2006; an additional 138 audits and special investigations were in progress at June 30, 2006.

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, 2005, through June 30, 2006, 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



Edward Burr, CPA, CGFM
Assistant Director



Kandi Thomas, CPA, CFE, 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, 2005. 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* issued by the United States Comptroller General. 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, 2006, the division published 59 financial and compliance audit reports containing 112 audit findings and issued opinions on 36 sets of financial statements. On June 30, another 63 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, 2005, 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 Special Tests and Provisions 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 \$3,671,432 were questioned for the year ended June 30, 2005.

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, 2005. 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

For the Year Ended June 30, 2005

Since 1994, the department still has not identified ineligible adoption assistance payments timely and continues to have difficulty collecting overpayments from foster care and adoption assistance parents. As of June 30, 2005, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$998,717.

Since 2002, the department has continued to charge the Title IV-E program for children's expenditures that were not Title IV-E reimbursable and had no documentation of criminal background checks of approved foster parents. Based on examination of 145 files, it appears the department received Title IV-E funds for 7 children (5%) during periods when the children's expenditures were not Title

IV-E reimbursable. This was a significant improvement over the prior year error rate of 22% (28 of 127 case files). For 5 of 110 foster parents' files tested (5%) the files did not contain adequate documentation that the criminal background checks were performed.

Since 1999, children's case files have not contained adequate documentation of case manager compliance with departmental policies regarding contacts and timeliness of case recordings for foster children. Our review revealed that 22 of 132 children's case recordings tested (17%) did not contain adequate documentation of at least one face-to-face contact with a case manager during each month the child was in custody. For 21 of 132 children's case recordings tested (16%), instances of case notes being recorded in TNKids more than 30 days after the casework activity were noted. The prior audit finding disclosed that 54 of 127 case recordings tested (43%) had time lapses of more than 30 days between the case activity and the date that the information was entered into TNKids.

The foster parents' files did not contain documentation of annual foster home reassessments and that foster parents completed PATH training. The review of foster parents' files revealed that in 8 of the 110 children's foster parents' files tested (7%), there was no documentation to show that DCS performed the foster home reassessment annually and/or that the foster parents had completed PATH training.

Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents. Our review of a sample of 150 Adoption Assistance files found 7 files (5%) that did not have the necessary documentation to support the Adoption Assistance payments.

Department of Finance and Administration
For the Year Ended June 30, 2005

As noted in the prior three audits, TennCare does not have sufficient controls to prevent or detect duplicate payments to the Managed Care Contractors.

As noted in the prior audit, TennCare failed to ensure that provider requirements were met in accordance with the Code of Federal Regulations. TennCare did not ensure that all managed care organizations required providers to make necessary disclosures required by the Code of Federal Regulations regarding ownership and control information and criminal offense histories of the providers.

Management had not implemented adequate security controls over the network on which TennCare's management information system resides. Failure to provide such controls increases the risk that unauthorized individuals could access sensitive state systems and information.

For the third year, TennCare chose to ignore federal guidance and to improperly record administrative payments to Premier Behavioral

Systems of Tennessee as medical assistance payments, resulting in \$3,254,103 of federal questioned costs.

As noted in the prior eight audits, 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 prior three audits, TennCare has failed to fully comply with the Home and Community Based Services Waiver for the mentally retarded and developmentally disabled by not allowing waiver providers the option of direct payments from TennCare.

For the third year, TennCare's administrative appeals process needs improvement. Delays in the processing of appeals results in the state and the federal government incurring additional costs of providing services to enrollees until the results of the appeals are determined.

As noted in prior audit findings in the previous five 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 does not have a court-approved plan which would allow TennCare to make a new determination of the eligibility of these enrollees.

Department of Health

For the Year Ended June 30, 2005

As noted in the previous audit, the department did not perform an inventory audit of a high-risk food delivery vendor for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) when information raising concerns about the vendor's contract came to management's attention. Because of the high risk of fraud by the vendor, the department should have performed more extensive monitoring of this vendor to ensure that resources allocated for the WIC program were properly expended.

As noted in the prior audit, the department did not have information systems policies and procedures governing the user authorization process over the Patient Tracking and Billing Management Information System (PTBMIS) and still has not fully addressed the risks of unauthorized access to PTBMIS.

As noted in the prior audit, the department's controls over access to the federal Vaccine Management System (VACMAN), which is the computer system that the department uses to place vaccine orders with the federal Centers for Disease Control, need improvement. The department has not assessed and mitigated the risks of misappropriation, misuse, or waste of vaccine associated with ineffective controls over the VACMAN computer system.

The department did not assess the risks of inadequate policies and procedures for proper follow-up and corrective action of monitoring deficiencies identified when the department performed monitoring

activities of subrecipients for the Block Grants for Prevention and Treatment of Substance Abuse program.

Management has not assessed and mitigated the risks associated with unauthorized program changes to the department's Alcohol and Drug Abuse Management Information System, which contains confidential patient information; management has also failed to test and approve a disaster recovery plan.

Department of Human Services

For the Year Ended June 30, 2005

The Property of the State of Tennessee (POST) system has not always been updated to reflect accurate information about Tennessee Business Enterprises equipment. Also, there was no evidence in POST that the inventory process had been completed for fiscal year 2005.

The Division of Rehabilitation Services has not always documented its compliance with the 60-day client eligibility determination requirement, and as a result, has not complied with federal regulations. Of 25 client case files tested, 3 (12%) did not contain evidence that the counselor and the client had agreed to a specific extension of time when eligibility for services could not be determined within 60 days of application for vocational rehabilitation services.

The department did not comply with child support enforcement regulations. For example, support obligation services were not provided within the required time frame. In addition, weaknesses were also noted in the most recent annual Self-Assessment Review.

The Department of Human Services did not deny or have good cause documentation for not denying Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements. Because staff did not follow established policies and procedures for those who were determined to be non-cooperative, 12 of 25 cases did not have their benefits denied, nor was there any documented evidence of a good cause reason for not denying the assistance. This was a finding in the prior four audits.

Mistakes in the administrative cost allocation spreadsheets resulted in the department claiming too much Food Stamp Administrative Matching Grant funding. As a result of these mistakes, the State Administrative Matching Grants for Food Stamp Program was overcharged \$13,272.14.

Controls over access to the Tennessee Rehabilitation Agency Tracking System need improvement. The security administrator could not locate a user authorization form for one person (4%) and none of the remaining 24 authorizations forms on file indicated an approved level of access.

The department did not follow purchasing procedures when it obtained security services for local offices. The department inappropriately purchased security services totaling approximately \$50,000 during the year ended June 30, 2005, using local purchasing authority.

Department of Labor and Workforce Development

For the Year Ended June 30, 2005

The Director of Information Services approved the purchase of over \$2 million of computer equipment using an unreliable inventory system and failed to report the resulting error to his supervisor. At June 30, 2005, 228 computers costing \$352,210 were not being used in the Unemployment Insurance program that funded the purchase.

The Assistant Director of Unemployment Benefit Operations and Technical Services failed to establish controls to provide for monitoring the preparation of the federal reports for the Trade Adjustment Assistance program. The performance reports on program participants were not reviewed for accuracy by someone other than the preparer and because of significant errors, federal employees requested that the department resubmit Trade Act Participant Report files for the last three quarters of fiscal year ending June 30, 2005.

Department of Revenue

November 2005

The receipt dates (in-dates) documented in the Revenue Integrated Tax System (RITS) do not always agree with the actual date of receipt. Seven of 60 receipts tested (12%) had in-dates on the related tax forms that did not agree with the date recorded in RITS.

Tax Enforcement Officers are still not properly maintaining daily reports and receipt books. Daily reports, which are used by Tax Enforcement Officers to record all collections received, are not maintained sufficiently, and the officers did not correctly complete their receipt book covers or receipts. Receipt numbers and voided receipts were not all listed in the daily reports; receipt book transfer forms were not retained; and assessment periods were not listed on the receipts.

The approved guidelines for account balance adjustments in the Revenue Integrated Tax System (RITS) are not followed. Fifty-one of 60 account balance change transactions tested (85%) were not handled correctly. Forty-eight did not have adequate documentation of review, and 19 did not include appropriate notes in RITS. Revised guidelines for account balance changes have been adopted but were not properly approved.

Fifty-nine of 60 pending credits (98%) and 40 of 60 pending debits (67%) have not been reviewed and resolved timely. As a result, the department may lose the opportunity to collect certain taxes owed to the state, or the department may erroneously keep funds that belong to the taxpayer.

The department did not have written procedures for refunds of reinstatement fees.

The risks associated with inadequate controls and lack of accountability over equipment have not been addressed. The department did not maintain proper accountability over equipment. The Property of the State of Tennessee manual contains guidelines for safeguarding and accounting for equipment. However, the department did not adhere to the guidelines.

The Department of Safety does not have a disaster recovery plan for applications not run from the Office for Information Resources (OIR) data center to provide for the continuity of operational functions in case its applications are destroyed. The objective of such a plan is to provide reasonable continuity of data processing if normal operations are disrupted.

The department has not submitted a Title IX implementation plan to the Comptroller's office each year, even though the department conducts a training program that is open to the public.

The risks associated with cash receipting procedures and controls at the driver's license stations have not been adequately addressed, controls over driver's license renewals need improvement, and several cash receipting offices did not develop required written cash receiving procedures.

Management did not mitigate the risks and implement effective controls over Interactive Vehicle, Title, and Registration Internet revenue. Auditor inquiry revealed that the department staff attempted to reconcile March 2005 counts of inquiries according to Safety's system against records from Tennessee Anytime. However, the identified differences were not explained. The lack of completed reconciliations has caused the department not to know if it has received all the money it is due from Tennessee Anytime.

Management of the department still did not mitigate the risks of fraud, waste, and abuse relative to motor vehicle registration revenue collections. The Motor Vehicle Title and Registration Division does not reconcile inventory reports of distributions of vehicle plates and decals with the revenue received from the County Clerks for sale of these items. This issue was first noted in the audit for years ended June 30, 1989, and June 30, 1990.

The Department of Safety has not properly monitored employees' access to the Driver License System and the Tag and Vehicle Inquiry System. Testwork revealed that the department did not ensure that appropriate access forms were maintained and did not have security agreements with all external users.

Department of State October 2005	The cash-receipting function is not adequate. No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from tying a new document received to a previously recorded document that had an equivalent charge and corresponding payment already posted to an account. The CMS simultaneously documents services provided by the department and receipts the fees collected. Therefore, documents could be filed and recorded, even though the proper fee had not been received for the new document.
Department of Transportation For the Year Ended June 30, 2005	DOT management did not ensure departmental policies and procedures and federal regulations were followed regarding the Davis-Bacon Act, increasing the risk of workers not receiving the prevailing wage rates.
Department of the Treasury For the Year Ended June 30, 2005	A lack of segregation of duties exists in the performance of certain Local Government Investment Pool (LGIP) transactions that creates an opportunity for fraud. An employee with the capability to both initiate and release the transaction could use an LS type of transaction to divert LGIP participant funds to an unauthorized bank account.
Executive Department September 2005	The department did not comply with the Financial Integrity Act. The required evaluation of internal accounting and administrative controls was not performed to support the December 31, 2003, Financial Integrity Act report.
Tennessee Commission on Aging and Disability February 2006	<p>The commission's management has not obtained adequate assurances about the security of information in the Social Assistance Management System, has not properly monitored access to the information at the area agency level, and did not mitigate the risk of improper access, alteration, and theft of data in the system. The commission has no written agreement with the system provider and has not required the system provider to furnish the commission with independent assurances that client information is adequately protected.</p> <p>The commission's management did not adequately monitor its area agencies' compliance with the terms of their grant agreements, and did not mitigate the risk of noncompliance and inadequate performance of services for the elderly and disabled. Since July 1, 2001, only three of the nine Area Agencies have been monitored. The invoices for reimbursement submitted by the Area Agencies do not have enough supporting documentation for the commission to verify the accuracy of the information on the invoices. The commission has not been routinely reviewing the annual Single Audit Reports obtained by the Area Agencies.</p> <p>The commission's management did not comply with the provisions of the Department of Finance and Administration's policy concerning grants accounting and did not mitigate the risk of inaccurate reporting to its grantors. The commission did not load all of its federal grants onto the State of Tennessee Accounting and Reporting System</p>

(STARS) Grant Control Table, did not record the federal grant award amounts in the STARS Grant File, did not draw federal funds using the STARS Daily Grant Drawdown Report, did not use the STARS “Schedule of Grant Activity” report as the basis for preparing the Schedule of Expenditures of Federal Awards, and did not use the STARS grants module reports to prepare its Federal Financial Status Reports.

**Tennessee Commission on
Children and Youth**

September 2005

The controls over monitoring of the grant contracts awarded by the commission to local governments and other agencies are not adequate. Several subrecipients had not been monitored as required. In addition, the commission did not submit a monitoring plan for 2005 as required by the Department of Finance and Administration’s Policy 22, *Subrecipient Contract Monitoring*.

The commission does not verify the educational background of external Children’s Program Outcome Review Team (CPORT) reviewers. CPORT collects, analyzes, and reports on data that will improve the effectiveness of services provided to children in state custody. However, the commission does not verify that the external CPORT reviewers meet the educational requirements as specified in the delegated purchase authority.

**Tennessee Council of
Juvenile and Family
Court Judges**

November 2005

The audit revealed that controls over the Executive Committee bank account were inadequate. Problems noted included: (1) maintenance of the account by state employees in state facilities utilizing state resources; (2) deposits without supporting receipts; (3) receipts written after deposits were made; and (4) lack of support for expenditures.

Program income not reported as required by grant guidelines. Conference registration fees were not reported as program income to the Tennessee Commission on Children and Youth. In addition, federal drawdowns occurred before all of the program income was spent.

**Tennessee Housing
Development Agency**

For the Year Ended June 30, 2005

The Section 8 Contract Administration Division has not monitored employees’ compliance with established policies and procedures for Contract/Funding Renewals and Rent Adjustments, resulting in noncompliance with the HUD Contract and Related Guidelines and increasing the risk of inaccurate reporting to HUD and incorrectly calculating the administrative fee received by THDA. A sample of Section 8 properties assigned to THDA was tested for proper performance of contract/funding renewals and proper processing of rent adjustments. This testwork revealed that the Section 8 Contract Administration Division did not always follow its policies and procedures, ACC provisions, and related HUD guidelines.

The Section 8 Contract Administration Division’s policies and procedures for performing management and occupancy reviews were not followed, resulting in noncompliance with the HUD Contract and

increasing the risk of inaccurate reporting to HUD and incorrectly calculating the administrative fee received by THDA. A sample of Section 8 properties assigned to THDA was tested to determine whether annual management and occupancy reviews had been properly performed. This testwork revealed that Section 8 Contract Administration Division staff did not always follow the policies and procedures for completing management and occupancy reviews or adequately monitoring compliance with the policies.

**Tennessee Regulatory
Authority**
February 2006

Management failed to assess and mitigate the risk of incompatible duties by the fiscal officer. The fiscal officer has extensive access to all financial processes and procedures, which results in duties that are inadequately segregated.

TRA management did not always adequately monitor expenditure transactions to ensure that the proper object code was charged, which increases the risk of an undetected fraud. Twelve of 25 expenditures tested were charged to the wrong object code.

Management failed to adequately identify, assess, and address the risks of incomplete and inaccurate personnel records. Time records were not always maintained or properly approved; personnel files did not always contain support for deductions from the employees' pay, the salary paid, or supplemental pay; one employee was placed on paid administrative leave pending disciplinary action related to a personnel issue for 72 calendar days without the approval of the Commissioner of the Department of Personnel; and FICA was not deducted and submitted to the Internal Revenue Service for one employee's pay during the audit period, nor was the employer's share submitted to the Internal Revenue Service.

The necessary notifications for temporary employees receiving retirement benefits from the Tennessee Consolidated Retirement System (TCRS) were not prepared and sent, nor were the hours worked adequately monitored by management, which resulted in excessive hours worked by one temporary employee during two separate work periods. The required temporary employment report for two of three temporary employees who were TCRS retirees was not completed and submitted to TCRS annually as required by state law. In addition, one of the temporary employees exceeded the statutorily established limit of 750 hours during both work periods audited, which could impact the amount of retirement benefits due to the employee.

Title VI reports relating to compliance with the Civil Rights Act of 1964 were not submitted as required. The June 30, 2003, Title VI compliance report and implementation plan was not submitted as required by Section 4-21-901, *Tennessee Code Annotated*, and the June 30, 2004, report was submitted 58 days after the due date.

The conflict-of-interest policy needs improvement. The authority's conflict-of-interest policy does not comply with state law regarding career service employees.

**Tennessee Sports
Hall of Fame**

For the Years Ended
December 31, 2004, and
December 31, 2003

Bank reconciliations were not reviewed. The Tennessee Sports Hall of Fame's (TSHF) accountant prepares monthly bank reconciliations; however, these reconciliations are not reviewed by anyone. In addition to preparing the bank account reconciliations, the accountant receives and maintains the monthly bank statement, maintains custody of the blank checks, and has sole access to the accounting system.

Revenue reconciliations were not always performed. TSHF personnel do not reconcile museum tickets sold to ticket receipts, nor do they reconcile ticket receipts to deposit records. In addition, TSHF personnel do not reconcile golf tournament entry forms with deposits or revenue recorded.

The credit card policy was not always followed. A policy governing credit card usage and controls was written; however, the Executive Director did not completely comply with the policy. Because receipts supporting purchases were not always maintained, the monthly credit card statements could not be reconciled with the receipts.

Disbursements were not always properly approved. Some non-credit-card disbursements tested either did not have proper approval or did not have evidence of approval.

**Tennessee State Veterans'
Homes Board**

For the Year Ended June 30, 2004

The auditors have previously identified fraud risks of misappropriation through manipulation of accounts receivable records, theft of equipment or supplies, theft of receipts, inappropriate use of credit, unauthorized purchases, and overstated travel claims. These risks have still not been adequately addressed. There are also risks of fraud related to financial reporting in the areas of accounts receivable, revenue, and equipment that have not been addressed. In addition to these long-standing risks, there are new risks identified in this audit related to payroll payments, cellular phone payments, and foundation funds, and there are other new risks created by the deficient policies and procedures and a lack of organization within the business offices. In addition, the board does not have complete and approved guidelines that address routine accounting functions or ensure compliance with applicable laws and regulations. Often the policies that have been approved by the board are not followed. As a result, the internal control at the board is not sufficient to protect the entity from fraud or misstatements.

For the eighth consecutive year, fraud risks and financial statement distortions created by inadequate accounts receivable practices have not been mitigated. The Tennessee State Veterans' Homes Board's accounts receivable balance still does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The balance includes significant negative balances,

some created by Medicaid overpayments that were not appropriately adjusted and some for which the cause is unknown.

For the third consecutive year, accounting records do not portray a true picture of receivables, and the risk of theft of resident funds was not addressed. The Tennessee State Veterans' Homes Board does not maintain adequate accounting records regarding receivables. The balances shown on the financial statements as well as the individual receivable balances for a number of past and present receivables do not portray an accurate picture of the amounts owed to the board.

For the eighth consecutive year, management has not addressed the risk of theft of board capital assets, and the capital assets records have not been adequately maintained. Management has allowed significant deficiencies to continue to exist in internal control for capital assets. The major, ongoing deficiency noted is the inability of management to correlate the results of physical inventories with accounting records as a result of inadequate accounting records for equipment and inaccurate equipment listings. Other deficiencies contributing to the reporting and accountability problems include the absence of property tags on the equipment items, the undocumented location changes for equipment, donated items that are not recorded on equipment listings or accounting records, and equipment assumed to be surplus without proper approval or investigation.

For the third consecutive year, management has not assessed and mitigated the risks of lost revenues caused by the lack of collection efforts for accounts receivable. Written procedures to collect receivables are not followed, and actions are not documented.

As noted in the prior audit, the board does not have adequate controls in place over the use of credit cards and open accounts. The board still has not adopted any policies for credit transactions.

As noted in the prior four audits, the board's policies and procedures over purchasing are not being followed, and service contract approvals required by state law are not being obtained. In addition, as noted in last year's audit report, contract payments were not always properly invoiced or reviewed.

For the sixth consecutive year, management has not assessed and mitigated the risk that the facilities may pay for goods not received. The verification of receipt of goods or services was still not consistently documented.

For the third consecutive year, because management has not assessed risk, internal controls for information systems are not adequate, leaving the board's records susceptible to fraud and improper alterations. Among other weaknesses, access to the system was not controlled and the system reconciliations were not performed.

Management's lack of organization increases audit risks and is an impediment to the audit process. Management did not retain all documentation necessary for the audit process. Not all documentation was available or readily available, nor was the documentation always complete.

The segregation of duties over the payroll function at both facilities does not appear adequate to prevent the possibility of fictitious employees being added to payroll or to prevent other fraudulent payroll activities.

The board paid \$5,399 for an employee's board-issued cellular phone after the employee's resignation. One individual at the Murfreesboro facility continued to use her phone for nine months after her resignation until the accounts payable clerk finally discovered the problem.

Duties for the Tennessee Veterans Home Foundation are not adequately segregated to deter receipting fraud, and as indicated in the prior audit, the improper accountability for restricted foundation accounts creates the risk that funds will not be used for their intended purpose. Most of the financial functions for the foundation are performed by one individual. The lack of independent checks and balances leaves the board exposed to thefts that could occur and go unnoticed. Also, for the second consecutive year, foundation restricted accounts sometimes have a negative balance, and the overall picture related to the restrictions was not analyzed by the foundation during the audit period.

For the fourth consecutive year, management has not assessed and mitigated the risks associated with travel reimbursements, resulting in excessive reimbursement of over \$1,350. Board members and employees of the facilities have not completed travel claims in accordance with Comprehensive Travel Regulations, and a duplicate payment was processed.

Medicaid residents at the Murfreesboro facility maintained resident trust fund balances in excess of \$2,000. The board did not follow its policy to notify the resident and then to notify Medicaid. Medicaid residents with such balances may lose their eligibility for the program.

There are no written policies and procedures regarding the car purchased by the board for the Executive Director's use. As a result, the board has not complied with certain Internal Revenue Service regulations.

The Tennessee State Veterans' Homes Board failed to follow the *Rules of the Tennessee Department of Finance and Administration Bureau of TennCare* and charged Medicaid residents more for room and board than it charged private paying residents.

The board failed to comply with the state law as well as the policy established by the state regarding departmental bank accounts.

The board was not in compliance with state law regarding the submission of a Title VI implementation plan.

Universities, Colleges, Technical Institutes, and Technology Centers

**Austin Peay State
University**

For the Year Ended June 30, 2004

The university did not always report Pell disbursements to the Department of Education within the required 30 days.

The university did not always report student status changes to the U.S. Department of Education within the required time frame.

**Chattanooga State
Technical Community
College**

For the Years Ended June 30, 2004,
and June 30, 2003

The college's financial aid office did not always properly calculate the amount of Title IV financial aid funds to be returned when a student withdrew from school. For 2 of 19 return of Title IV funds transactions tested from the 2003 and 2004 fiscal years (11%), errors were made in performing the necessary calculations. In one case, a financial aid employee performed, or at least supervised, the return-of-funds calculation for her daughter. This was contrary to the college's conflict of interest policy.

**Cleveland State
Community College**

For the Years Ended June 30, 2004,
and June 30, 2003

The purchasing agent is failing to enter the serial numbers and locations of equipment on the college's equipment management system. Without the prompt recording of this information, the college will lack the ability to properly safeguard and control these equipment assets.

**The University of
Tennessee**

For the Year Ended June 30, 2005

Departmental personnel are failing to enter on the university accounting system the serial numbers and tag numbers of equipment purchased with federal funds. Without the prompt recording of this information on the university's accounting system, the university will lack the ability to properly safeguard and control these assets.

At the University of Tennessee at Knoxville and at the University of Tennessee Center for the Health Sciences at Memphis, the university did not properly report enrollment changes for Federal Family Education Loan borrowers who dropped classes, withdrew, or graduated.

At the University of Tennessee Center for the Health Sciences in Memphis, the financial aid staff was not able to document that necessary correspondence was sent to Perkins loan borrowers entering repayment. The *Code of Federal Regulations*, Section 34, Part 674.42(c), states that institutions must contact borrowers entering repayment three times during a nine-month grace period: 90 days, 150 days, and 240 days after the commencement of the grace period. The grace period is a prescribed period of time (nine months for these students) before the borrower must begin or resume paying a loan. The letters inform the borrower that he or she is responsible for

repayment and describe repayment terms and amounts. For 12 of 25 Perkins borrowers tested who entered repayment, there was no documentation that any grace period letters had been sent. For another borrower, there was no documentation that the 90-day letter had been sent.

Community Services Agencies

Davidson County Metropolitan Community Services Agency May 2006	The Davidson County Metropolitan Community Services Agency did not monitor its agreements with the Metropolitan Government of Nashville and Davidson County or the Mid-Cumberland Community Services Agency to ensure compliance with the terms of the agreements. Also, although the agreement between the Davidson County Metropolitan Community Services Agency and the Mid-Cumberland Community Services Agency ended on June 30, 2004, the two agencies continued to operate as if the same agreement was in place for the fiscal year ended June 30, 2005.
East Tennessee Community Services Agency September 2005	The East Tennessee Community Services Agency has not complied with case management policies and procedures related to case file documentation and its contacts with children and families.
Knox County Community Services Agency January 2006	<p>As noted in the prior two audit reports, the Knox County Community Services Agency (CSA) did not enter into contracts with service providers as required.</p> <p>The Knox County CSA did not comply with case management policies and procedures related to case file documentation and its contacts with children and families.</p> <p>The Knox County CSA failed to establish adequate internal controls in its review and payment of invoices to service providers, which resulted in unauthorized, unsupported, or unallowable expenditures.</p> <p>As noted in the prior year's audit, the Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the CSA service area, continued to serve on the board of directors of the Knox County CSA in violation of state law. The DCS Regional Administrator was not appointed to the board by the Governor but continued to vote on CSA business.</p>
Mid-Cumberland Community Services Agency May 2006	The agency failed to complete a criminal background check for 10 of 15 applicable employees hired during the audit period before the employees were allowed to work alone with children. When employees are allowed to work alone with children before the results of background checks have been received, there is a chance a person convicted of a child-related abuse offense could have unsupervised contact with children.

Documents were not always properly prepared, submitted, or reviewed and approved in accordance with agency policies, increasing the risk of an improper or incorrect disbursement, reconciliation, or journal entry. The Executive Director did not approve five bank reconciliations, all journal entries for the audit period, and administrative leave with pay for three employees. Also, six of the Executive Director's travel claims for the audit period were not reviewed by the Fiscal Services Director or another employee. In addition, the Executive Director did not submit the required leave request forms for 178.5 hours of leave used during the audit period. Other Executive Director leave request forms were not properly approved or completed. These problems appear to be the result of the agency's directors and supporting staff neglecting to forward documentation to another individual for approval.

Mid-Cumberland Community Services Agency did not provide all the services required by its purchase agreement with the Davidson County Metropolitan Community Services Agency, increasing the risk that funds were not properly used. The Mid-Cumberland Community Services Agency Director of Fiscal Services did not adequately perform 5 of the 11 services outlined in the purchase agreement with the Davidson County Metropolitan Community Services Agency. In addition, although the purchase agreement ended on June 30, 2004, the agencies continued to operate under the agreement during fiscal year ended June 30, 2005.

**South Central Community
Services Agency**
April 2006

South Central Community Services Agency (CSA) did not comply with case management policies and procedures related to case file documentation and agency contact with children and families. The CSA's failure to comply with the Department of Children's Services' required case management policies and procedures for the Family Support Services Program and the Family Crisis Intervention Program violates its contractual agreement with the department. Because the children served by the CSA are considered "at imminent risk," the prompt and appropriate delivery of services provided by the CSA is necessary for the protection of the children.

In a review of agency personnel hired from July 1, 2003, through March 24, 2005, we found that two of nine case managers (22%) did not have a criminal background check documented in their personnel file before the case managers were allowed to have unsupervised contact with children. When employees are allowed to work alone with children before the results of background checks have been received, there is a chance a person convicted of a child-related abuse offense could have unsupervised contact with children.

Neither the CSA nor the Department of Children's Services notified the Comptroller of the Treasury, as required by state law, about the discovery of fraud and subsequent investigation of a South Central Community Services Agency employee for fraud. The purpose of the

statutory requirement is to ensure a thorough investigation and appropriate resolution in the best interest of the state.

**Southwest Community
Services Agency**
December 2005

The Southwest Community Services Agency has not complied with case management policies and procedures related to adequate case file documentation and its contacts with children and families.

The agency did not have adequate internal control regarding its review and payment of invoices to service providers, which resulted in incorrect and unsupported expenditures.



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:

- Reimbursable rate computation and examinations 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 and Rural Health Clinics as required by the Benefits Improvement and Protection Act of 2000.

- 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, 2006, 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, 2006, the TennCare section assisted the Department of Commerce and Insurance in performing two 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 two 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, 2006, have been completed and the report for the quarter ending September 30, 2006, is in progress.

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Performance



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

A performance audit is an independent examination of the extent to which 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, 2006, the performance audit section released 9

audit reports and had 16 projects in process at year-end. The Government Operations Committees held 4 public hearings on 38 entities in the year ended June 30, 2006. At these hearings, performance audit staff presented audit reports covering the 38 entities.

Audit Process

Performance audits are conducted in accordance with *Government Auditing Standards* issued by the United States Comptroller General. 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 nine audit reports released during the year ended June 30, 2006.*

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

**Memphis and Shelby County
Community Services Agency**
July 2005

The Memphis and Shelby County CSA had not monitored vendors to ensure criminal background checks were completed on all vendor employees who have contact with children. By not verifying criminal histories, the agency could inadvertently place children at risk of being harmed by persons convicted of child abuse offenses.

The agency has not yet implemented a formal policy regarding monitoring compliance with Title VI of the Civil Rights Act of 1964. Failure to implement a plan limits the agency's ability to ensure non-discrimination in the delivery of services.

Board members and staff have not always filed conflict-of-interest statements annually. Annual written disclosures of 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.

Observations and Comments The audit also discusses the following issues: (1) the agency's quality improvement efforts, (2) the Flexible Funding for Families program, and (3) audit committee legislation.

**Tennessee Wildlife
Resources Agency and
Tennessee Wildlife
Resources Commission**
August 2005

Because costs of the commercial fishing and musseling programs exceed program revenues (i.e., license fees), TWRA uses revenues derived from the sale of recreational hunting and fishing licenses, fees, and permits to subsidize the cost of the commercial programs.*

Since TWRA still does not have an adequate, reliable funding source for non-game and endangered species programs, revenues derived from the sale of hunting and fishing licenses continue to subsidize these programs.*

TWRA's conflict-of-interest policy does not require commission members to file annual disclosure statements or recuse themselves from proceedings when conflicts arise. Without a means of identifying potential conflicts of interest and discussing and resolving them before they have an impact on decisions, commission members could be subject to questions concerning impartiality and independence.

TWRA contracts with farmers to raise crops on agency properties, thereby benefiting the farmers, the agency, wildlife, and hunters. However, the central office still does not maintain copies of all cooperative farming contracts (crop leases) and bid paperwork required by the State Building Commission.*

TWRA still has no policy to regularly monitor TWRA-owned land for boundary encroachments by the public. Without consistent monitoring, TWRA is at risk of losing valuable assets due to encroachments such as timber harvesting or cattle grazing.*

Tennessee still does not have a boat titling law thereby increasing the vulnerability of consumers, lending institutions, and insurance companies to boat theft and insurance fraud. The absence of boat titling law also hinders TWRA's and other law enforcement agencies' ability to investigate boat theft.

Although the agency does some data reliability test work for the Remote Easy Access Licensing (REAL) system, test work is sporadic and TWRA has not developed detailed written procedures to ensure consistent reviews.

Since the internal auditor reports to the Federal Aid program director instead of the executive director or the Wildlife Resources Commission, the auditor lacks organizational independence, a key element of an effective internal audit function.*

Observations and Comments The audit also discusses the following issues: (1) Reelfoot Lake siltation, (2) watchable wildlife license plates, and (3) audit committee legislation.

Issues for Legislative Consideration The General Assembly may wish to consider amending state law to require boat titling.

**Department of Environment
and Conservation and
Related Environmental
Boards**

November 2005

Environmental regulatory divisions did not always initiate enforcement action in a timely manner, and cases initiated sometimes remained open with the department's Office of General Counsel for extended periods of time.

The department has still not developed an integrated system to collect enforcement data and track enforcement activities of the regulatory divisions.

The department has only limited information on old landfills closed before permitting regulations were enacted in 1972, and many landfills closed after permitting began have not been inspected since 1998.

The department has not developed and consistently applied a comprehensive matrix for calculating and recovering the economic benefits of noncompliance with pollution laws.

Participants in the Voluntary Cleanup, Oversight and Assistance Program (VOAP) for the investigation and/or remediation of property whose expansion, redevelopment, or reuse is complicated by the

presence or potential presence of a hazardous substance, pollutant, or contaminant did not give timely public notice for some cleanup agreements reviewed.

As part of its responsibilities focused on protecting the state's water supply, the department's Division of Water Supply monitors the drilling of wells and requires well drillers to submit reports summarizing the construction or reconstruction of a well within 30 days of completing the project. However, 55% of the drillers we reviewed did not submit timely reports.

The department has not completed the surveys to establish and mark state park boundaries required under the *1999-2009 Tennessee State Parks Master Plan*.

The Department of Environment and Conservation completed a ten-year state parks master plan by March 1, 1999, as required by Section 11-3-120(b), *Tennessee Code Annotated*. However the department failed to submit a statutorily required update by March 1, 2004.

The department has not established a State Compliance Advisory Panel on Air Pollution, as required by Title V, Section 507, of the federal Clean Air Act.

Observations and Comments The audit also discusses the following issues: the solvency status of the Tennessee Underground Storage Tank Fund, the lack of verification of well driller/pump installer applicants' experience information, status of the cleanup of the Oak Ridge Reservation, improvements in the X-ray inspection process and in inspections of underground storage tanks, revisions in the method for allocating indirect costs at state parks, and an update on Environmental Protection Fund balances.

Health Related Boards

December 2005

Under the provisions of the Public Records Act, board-developed examinations may be considered public information and therefore, available for review by examinees prior to taking the examinations.

The Boards of Dentistry, Optometry, and Veterinary Medical Examiners, as well as the Council of Certified Professional Midwifery, were not self-sufficient during fiscal year 2003. The Boards of Dentistry, Optometry, and Veterinary Medical Examiners were also not self-sufficient in fiscal year 2002. Only one board, the Council of Certified Professional Midwifery, was not self-sufficient in fiscal year 2004.

The boards do not adequately follow up on expired licenses, and not all boards impose additional penalties or additional renewal requirements when professionals have worked with expired licenses or their licenses have been expired for extended periods of time.

The Division of Health Related Boards does not always follow its policies regarding the board member appointment process, and membership appointments are not always timely.

One of the boards reviewed does not require practitioners to obtain continuing education or demonstrate continuing professional competence as a condition of license renewal. In addition, not all boards that require continuing education as a condition of license renewal monitor licensees for compliance with continuing education requirements.

The boards' conflict-of-interest policies and procedures need improvements in several areas.

Observations and Comments The audit also discusses the following issues: a lack of regular updates to some board-developed examinations; the division's continued efforts to improve the practitioner complaint-resolution process; and improvements related to disciplinary guidelines and assessment of disciplinary costs.

Department of General Services

April 2006

The department does not adequately monitor vendors or document monitoring for contract compliance during the term of the contract. The department also provides inadequate direction to its divisions and other agencies regarding necessary contract oversight procedures, particularly in regard to how services are to be assessed.

Oversight of the Tennessee Comprehensive Food Service Program (Cook-Chill) contract has been inadequate and does not ensure that operations are efficient, costs are controlled and appropriate, and that the vendor is held accountable.

Program costs of the DUI Seizures Program significantly exceeded revenues and the program had serious weaknesses related to administration and oversight, database controls, and data reliability, resulting in inadequate management control of the program and a lack of reliable information with which to hold the vendor accountable.

The department is not properly overseeing the shredding of sensitive state records, thereby risking the theft or unauthorized use of employees' and citizens' protected health information and other personal information.

Department oversight and enforcement of security guard service contracts—particularly regarding the control of persons coming and going from state office buildings—need significant improvement to safeguard state employees and assets.

The Property Utilization Division does not have comprehensive policies and procedures for the receipt, disbursement, and monitoring of the state's surplus property.

The Property Utilization Division lacks an efficient state surplus inventory program with sufficient internal and security controls to ensure that the state's surplus property is not lost, stolen, or allowed to sit idle and deteriorate.

The department is not sufficiently monitoring its own activities and federal surplus property donees for compliance with Title VI.

Conflict-of-interest forms need revision, and statements need to be completed by employees on an annual basis to ensure that employees are not using their position for private gain, giving preferential treatment to others, or impeding government efficiency and effectiveness.

The Office of Internal Audit is not conducting contract audits as frequently as intended by policy to ensure that vendors are complying with their contracts and using state funds appropriately and in a lawful manner.

The department still does not have a climate-controlled state warehouse facility for the storage of electronic media, and other existing warehouse facilities are in serious need of repair or replacement to mitigate the danger to employees and the danger of damage, destruction, or theft of state records and assets.*

Issues for Legislative Consideration The General Assembly may wish to consider legislation that amends Sections 4-3-1105 and 4-3-1107 through 1111, *Tennessee Code Annotated*, to remove references to an energy management program within General Services; and amends Section 68-211-865, *Tennessee Code Annotated*, to remove Sections 1 through 4 from statute delineating the duties of the Department of General Services in regard to the state office recycling program.

**Select Oversight Committee
on Corrections**

April 2006

Based on our review of the committee's activities and our interviews with legislators, administration officials, and others concerned with correction-related issues, the Select Oversight Committee on Corrections has apparently met its legislative mandate. In addition, it appears that there is a continued need for the committee.

**Board of Probation and
Parole**

May 2006

Board of Probation and Parole field officers are not completing all of the offender supervision requirements, which could limit the board's ability to meet its mission to minimize public risk and promote lawful behavior.

Parole Hearing and Final Decision Notification Procedures still need to be improved to ensure that requirements are clear and complied with, and that compliance is fully documented.

Follow-up on Prior Audit Findings The audit also details the results of our follow-up on prior audit findings related to the board's case

management system, community corrections programs, collection of offender fees, and staff training.

Observations and Comments The audit also discusses the following issues: the need for the board to clarify requirements for field office supervisors' review of case files and documentation of that review; the graduated/progressive intervention program for technical violators; the Tennessee Bridges Program; community collaborative programs; the board's responsibilities for registration and fingerprinting of sex offenders; the community corrections pilot program; the use of global positioning satellite to supervise serious and violent sex offenders; and the parole hearing process.

Middle Tennessee
Community Services
Agencies—
Davidson County
Mid-Cumberland
Upper Cumberland
South Central
May 2006

The boards for all three active CSAs (Mid-Cumberland, Upper Cumberland, and South Central) do not have a policy requiring annual signed conflict-of-interest disclosure statements and have members serving who have not signed conflict-of-interest statements or whose signed statements are at least two years old.

All three active CSAs (Mid-Cumberland, Upper Cumberland, and South Central) have multiple board vacancies, some officially vacant through resignation or death and others through the non-attendance of the members. Many of these board positions have been vacant for more than two years. This has resulted in Mid-Cumberland's and Upper Cumberland's boards conducting business at times without a quorum, which is against the boards' policies.

South Central CSA should ensure that it has effective policies and procedures for monitoring its vendors for compliance with Title VI.

At all three CSAs (Mid-Cumberland, Upper Cumberland, and South Central), some vendor files did not contain documentation of driving and criminal background checks, driver performance evaluations, business or ambulance service licenses, and liability insurance. Without complete documentation, the CSAs cannot properly oversee the operations of the TennCare Transportation program and safeguard the program's clients.

Upper Cumberland CSA's family services counseling program personnel files do not contain documentation required by contract, agency policy, and best practices.

Observations and Comments The audit also discusses the following issues: (1) the Department of Finance and Administration commissioner serving on the CSAs' boards, (2) conflicts between annual report and financial statement requirements, (3) new programs and the future viability of the CSAs, and (4) the results of additional audit work.

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 Finance and Administration 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 participating in the majority of CSA business.

Eastern Tennessee
Community Services
Agencies—
East Tennessee
Hamilton County
Knox County
Northeast
Southeast
May 2006

Board members are not filing annual conflict-of-interest statements.

Board policies regarding vacancies and quorums should be adhered to and/or revised.

Neither East Tennessee, Northeast, nor Southeast CSA has formal policies and procedures in place for monitoring contract vendors for compliance with Title VI.

At all three CSAs (East Tennessee, Northeast, and Southeast), some vendor files did not contain documentation of driving and criminal background checks, driver performance evaluations, current valid drivers' licenses, business/EMS licenses, and liability insurance. Without complete documentation, the CSAs cannot properly oversee the operations of the TennCare Transportation program and safeguard the program's clients.

The three Eastern Tennessee CSAs do not conduct any type of customer satisfaction surveys as required by contract and program guidelines to determine if TennCare enrollees are satisfied with the services they are receiving and if there are any areas of concern that need to be addressed. The other six CSAs (Northwest, Southwest, Mid-Cumberland, Upper Cumberland, South Central, and Memphis/Shelby County) all conduct regular customer satisfaction surveys that address a number of factors that could affect the level of service that is being provided.

Observations and Comments The audit also discusses the following issues: (1) the Department of Finance and Administration's commissioner serving on the agencies' boards, (2) conflicts between annual report and financial statement requirements, (3) new programs and future viability, and (4) the results of additional audit work.

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 Finance and Administration 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.

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.

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, 2006, 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 \$163,445, a judgment for \$250,000 of which \$150,000 has been received, one employee reassigned, 2 terminations, 68 indictments, and 3 convictions during fiscal year 2006.

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, state agencies or community grant agencies receiving public funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 10,983 calls, including 616 calls between July 1, 2005, and June 30, 2006. Of the 616 calls, 165 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 165 calls referred for action, responses have been received on 137, and these are considered closed. The remaining 28 continue to be considered open.

The remaining 451 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, 2006.

**County Audit—
Inappropriate Financial
Activity by County Senior
Citizens Center** The caller alleged various financial improprieties by a county senior citizen’s center. The review revealed that the center’s checking accounts were not being processed through the county’s budgetary process, had not been audited, and were not included in the county’s financial statements. The review revealed that certain employees received compensation that was not authorized by the County Commission, and not subjected to income tax, social security, and Medicare deductions; the review also revealed the failure of the center to make the required matching social security and Medicare payments. The review revealed that competitive bids were not solicited for renovations to the center. The review revealed that \$639 worth of personal purchases were made using county credit cards. These funds were reimbursed by the employees who made the purchases.

**County Audit—
Mishandling of Funds** The complainant alleged that a school department employee was paid for work that she did not perform. The review confirmed the allegation. The school department dismissed the employee and required her to pay restitution of \$820.

**County Audit—Improper
Checking Accounts** The caller alleged a county animal control department had opened up a private checking account. The review confirmed the allegation.

The account has been closed, and all funds were placed in the county's General Fund.

Education—Theft of After-School Program Funds	The caller alleged that after-school program funds were stolen. The review determined that there was a theft of \$268 in parent-paid tuition money for the after-school program. School district policy requires the custodian of funds to reimburse the district when there is a loss of funds. Documentation provided to the department shows that the custodian reimbursed the district for the missing funds.
Environment and Conservation—Raw Sewage Leak	The caller alleged that raw sewage was being released from a private residence onto a public street. The review determined that the discharge was from a washing machine, and the department required it to be repaired.
Health—Improper Charge	The caller alleged that her local health department charged her \$5.00 for what should have been a free service. The review determined that the caller should not have been charged for the service provided. The caller received a \$5.00 credit for future visits.
Health—Improper Payments to Clients	The caller alleged that a drug and alcohol rehabilitation center employee was paying clients “under the table” for working at the agency. The review determined that the employee had paid clients out of her own funds for odd jobs around the center. The employee then requested and received reimbursement from the center. The reimbursements violated the contract between the department and the center. The center instructed the employee to stop.
Health—Inappropriate Employee Behavior	The caller alleged that employees of a county health department were involved in inappropriate activities at work. The review confirmed the allegations. The agency issued written warnings to the employees and required employees to complete the evaluation courses for supervisors and attend the Respectful Workplace for Supervisors course.
Health—Long Wait for Services	The caller alleged that he had to wait over three hours to receive a shot. The review confirmed the allegation. The agency implemented new procedures to expedite patient evaluations, and the Director of the program called the complainant and apologized for the long wait.
Health—Menu Rules Violation	The caller alleged that a drug and alcohol rehabilitation center employee was stealing food from the center. The review determined the allegation was without merit, but did determine that the center was not following departmental rules regarding menus.
Health—Scheduling Error	The caller alleged that her local health department refused to give her a follow-up shot. The review determined that the agency scheduled the follow-up shot at a time when the agency was closed. The Regional Director wrote a letter of apology to the caller.

Human Services— Environmental Concerns at a Daycare	The caller alleged that there was a terrible odor at a daycare center. The review confirmed the allegation. The environmental concerns were cited, and a warning letter was issued. A follow-up visit noted that the violations were not corrected. The department recommended revocation of the daycare’s license.
Human Services—Food Stamp Fraud	The caller alleged that a food stamp recipient had falsified income and residence information to receive benefits. The department requested income and residence information from the recipient. When the recipient failed to comply with the request, the department discontinued the benefit.
Human Services— Insufficient Staff at a Daycare	The caller alleged that there was insufficient staff at a daycare. The review confirmed the allegation. The department issued a Put-on-Notice letter and Plan of Corrective Action.
Human Services— Insufficient Staffing at a Daycare	The caller alleged that there was insufficient personnel on hand to take care of children at a daycare. The review confirmed the allegation. The department issued a Put-on-Notice letter and Plan of Corrective Action to the daycare.
Labor—Failure to Provide Number of Class Hours as Advertised	The caller alleged that she signed up for an adult education class that was supposed to provide 80 hours of instruction but provided significantly fewer hours. The review revealed that the allegation was with merit. The department implemented new methods for documenting and recording training hours for students.
Mental Health and Developmental Disabilities— Long Wait for Services	The caller alleged that he was required to wait five hours to see his therapist. The review confirmed the allegation. The Center Director requested the resignation of the employee responsible for making the patient wait.
Mental Health and Developmental Disabilities—Violation of Licensure Rules	The caller alleged the service provider was in violation of numerous licensure rules. The department determined that the facility was in violation of at least nine licensure rules. The department issued a Notice of Non-Compliance, and the service provider is required to respond with a Plan of Compliance or risk losing licensure.
Municipal Audit—Conflict of Interest	The caller alleged that a city purchased a computer from a company that is owned in part by a city utility employee. The review confirmed the allegation, and a finding was issued stating that the city and employee failed to follow provisions of the city charter.
Municipal Audit—Water Overcharges	The caller alleged that she was charged for 25,000 gallons of water over a period of five days. The commissioner of the water department agreed to make billing adjustments and to take action regarding meter reading.

Table 1: Analysis of Substantive Hotline Calls Received in Fiscal Year 2006

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
Local Government			
Municipal Audit	14	12	2
Metro Nashville Health Department	1	1	0
County Government			
County Audit	9	8	1
State Government			
Agriculture	2	2	0
Board of Regents	1	0	1
Board of Veterinary Medical Examiners	1	0	1
Children's Services	2	2	0
Commerce and Insurance - Consumer Affairs	4	2	2
Correction	1	0	1
Education	5	4	1
Environment and Conservation	4	4	0
Finance and Administration	3	3	0
General Services	3	3	0
Health	30	28	2
Human Services	29	29	0
Labor	5	2	3
Mental Health and Developmental Disabilities	7	7	0
Mental Retardation	3	0	3
Revenue	2	1	1
Safety	1	1	0
Secretary of State	1	1	0
Southeast Tennessee Human Resources Agency	2	1	1
State Audit	4	1	3
TennCare	10	9	1
Tennessee Arts Commission	1	1	0
Tennessee Consolidated Retirement System	1	1	0
Tourist Development	1	1	0
Transportation	6	6	0
University of Tennessee	1	1	0
Federal Government			
Head Start	1	0	1
Housing and Urban Development	2	1	1
Labor	1	1	0
Social Security	1	0	1
Total	165	137	28

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.

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.

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Division of County Audit



Richard V. Norment
CIA, CGFM
Assistant to the Comptroller



Arthur L. Alexander
CGFM
Director



Bob Powell
CGFM
Assistant Director
Administration

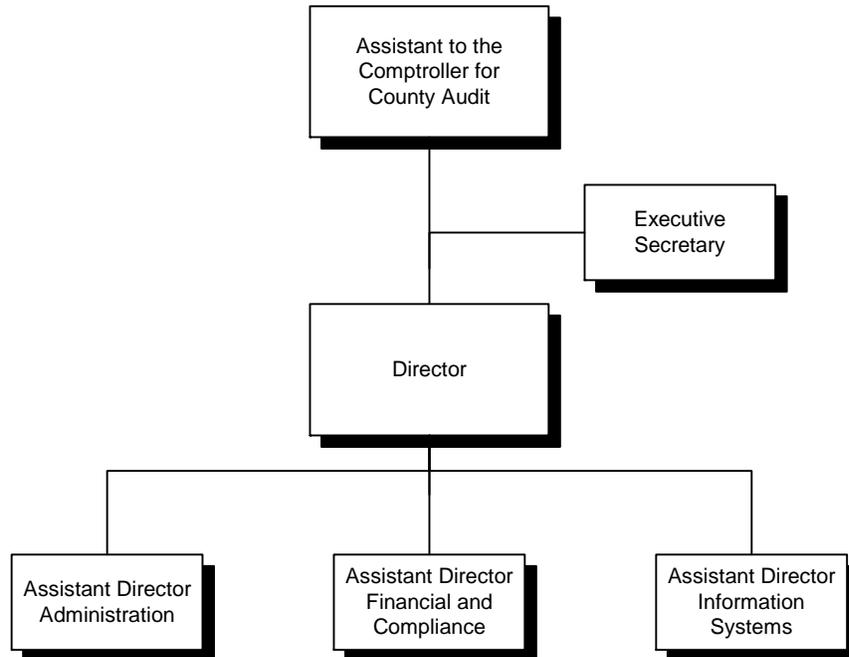


Joe Kimery
CPA, CGFM, CFE
Assistant Director
Financial and Compliance



Jim Arnette
CISA, CGFM, CCP
Assistant Director
Information Systems

Division of County Audit



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

Financial and Compliance

The division presently conducts audits in 89 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 six counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan which includes a review of working papers prepared by certified public accountants.

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 89 of the state’s 95 counties during the 2005-06 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, 2005.

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 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 eight 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 43 counties during the year ended June 30, 2006. The division anticipates that IS reviews will be conducted in 45 counties and two special school districts during the year ending June 30, 2007.

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 six county governments during the next four years. The audits of Davidson and Knox Counties were monitored for the year ended June 30, 2005, and the audit of Hamilton County will be monitored for the year ended June 30, 2006.

The division reviewed 304 audit reports for the year ended June 30, 2005, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 304 such reports for the year ended June 30, 2006.

Reviews of Funds Administered by District Attorneys General

During 2006, 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, 2004, through June 30, 2005. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

Reviews of County Correctional Incentive Program (CCIP)

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

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county's financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 23 detention facilities during the 2005-06 audit year. As a result of the reviews, it was determined that the state had overpaid \$89,017 for eight facilities and underpaid \$228,551 for three facilities.

The reviews of 11 facilities resulted in no over- or underpayments. The record-keeping system for one facility did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for this facility 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, 2005, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Franklin County Sheriff	\$ 1,000
Hardeman County Ambulance Service Director	1,242
Hardeman County Director of Schools	9,579
Jackson County Clerk and Master	3,238
Marshall County Veterans Services Officer	1,353
Marshall County Sheriff's Office	14,360
McNairy County Gen. Sessions Court Clerk's Office	77
Morgan County Clerk's Office	6,103
Sequatchie County Sheriff's Office	1,480
Sevier County Gen. Sessions Court Clerk's Employee	16,643
Wayne County Highway Department	<u>7,090</u>
Total Cash Shortages	<u>\$62,165</u>

The audits conducted by this division disclosed fund deficits of \$118,657,227 in 59 governmental fund accounts in 45 counties. Audits also reflected net asset deficits totaling \$13,611,150 in 9 enterprise funds and 3 internal service fund accounts in 10 counties.

The division's examination of offices and departments in 89 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. (46)
- 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. (56)
- Fund expenditures exceeded appropriations approved by the local governing body. (20)
- Budgeted beginning fund balance was understated by a material amount. (21)
- Purchasing procedures were not in accordance with controlling statutes. (43)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (25)
- Drug control funds were not administered in compliance with statutory provisions. (15)
- Funds were not deposited within three days of receipt, as required by state law. (24)
- 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. (14)

- Loans, notes, or lease-purchase agreements were not approved by the County Commission and/or director of Local Finance. (17)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (11)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (27)
- Deficiencies occurred in accounting/recordkeeping. (87)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (79)
- Purchase orders were not used or were not issued properly in the purchasing process. (39)

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

Claiborne County Mayor
For the Year Ended June 30, 2005

Our examination of the Claiborne County Mayor's Office revealed numerous deficiencies. Some of these deficiencies are noted below.

- A. Cash on deposit with the trustee was not accurately reconciled with the General and the General Capital Projects Funds.
- B. The county mayor used county funds totaling \$1,170 to pay for personal advertisements.
- C. There were numerous deficiencies regarding payments to individuals, which were classified as salary. Several salary payments were not channeled through the payroll system and applicable taxes were not withheld. In some instances, records were not maintained to document the type of work performed or the hours worked. Not all salary payments were reported to the Internal Revenue Service.
- D. Expenditures exceeded appropriations in two funds and estimated beginning fund balances differed with actual fund balances by material amounts in three funds.
- E. Deficiencies were noted in procedures for contracts. The county mayor entered into two contracts with the same vendor. In both contracts, the county made payments to the contractor before the work was performed. In one instance, there was no written contract and in the other instance, the contract did not address pertinent issues such as rates and when work was expected to be completed.
- F. There were deficiencies regarding purchasing procedures. In several instances, purchase orders were not issued. In

addition, descriptions of purchases did not always agree with the items actually purchased or invoiced. Some expenditure accounts and fund numbers reflected on purchase orders did not always agree with the accounts and/or funds that were actually posted to the accounting records.

**Hardeman County
Ambulance Service**

For the Year Ended June 30, 2005

The Ambulance Service maintained unauthorized savings and checking accounts. The director misappropriated county funds from these unauthorized accounts, resulting in a cash shortage of \$1,241.93. On April 29, 2005, the director liquidated the \$1,241.93 cash shortage with personal funds, and Hardeman County terminated employment of the director.

**Hardeman County
Director of Schools**

For the Year Ended June 30, 2005

The director of schools misappropriated equipment and supplies, resulting in a cash shortage of \$9,579.23. Our investigation revealed that equipment totaling \$9,053.81 was missing from the Board of Education offices: three laptop computers (\$5,238.48), two LCD projectors (\$3,382), two printers (\$158), and three computer-carrying cases (\$275.33). We determined that the director was the last person to have possession of these items prior to his resignation effective June 30, 2005. The school's director returned some of the missing equipment after being questioned about the equipment. The school's director also admitted to burning some of the equipment, and he reimbursed the School Department for that equipment. In addition, the former school director admitted to purchasing supplies (\$525.42) with the School Department's credit card for his personal use. He repaid this amount to the county trustee by cashier's check.

**Jackson County Clerk
and Master**

For the Year Ended June 30, 2005

This office had a cash shortage of \$3,238.23. We examined the clerk and master's records on March 3, 2005, and discovered that a deposit totaling \$2,108.23 which comprised receipts from November 11, 2004, had not been deposited to the official bank account. To reconcile the bank statement with the general ledger, the clerk and master adjusted the general ledger to present the November 11, 2004, transactions as cash on hand rather than as cash in bank. However, the November 11, 2004, collections were not in the office. The clerk and master deposited \$2,108.23 to the official bank account on June 30, 2005. This deposit included customer checks totaling \$971.78 from the original November 11, 2004, deposit. In addition to the previously discussed \$2,108.23, child support collections totaling \$540 had been receipted but not deposited or otherwise accounted for, and the clerk and master had cashed a personal check for \$590, which was returned by the bank for insufficient funds. The clerk and master deposited \$1,130 to the official bank account to liquidate these portions of the cash shortage.

**Marshall County
Veteran's Service Officer**

For the Year Ended June 30, 2005

The Director of Accounts and Budgets notified us of a potential problem with a checking account maintained by the veteran's service officer. The veteran's service officer misappropriated county funds, resulting in a cash shortage of \$1,353.16. He was indicted for theft and admitted using veteran's funds 23 times totaling \$893.16. He

also paid himself \$460 for driving the van at the same time he was on the payroll as a Marshall County employee; thus, he was paid for two jobs at the same time.

Marshall County Sheriff
For the Year Ended June 30, 2005

The office had a cash shortage of \$14,359.88 that resulted from office personnel's failure to deposit or otherwise account for some inmate/commissary collections and from unauthorized disbursements. The county terminated employment of the jail administrator.

Booking receipts totaling \$6,500.09 could not be traced to county records. These unaccounted receipts were not included as part of the cash shortage because we could not determine whether these receipts were returned to detainees in cash or were misappropriated. The office used generic receipt books rather than official receipt books; therefore, we were unable to determine if we were provided with all the receipt books.

Because some inmate funds were not deposited and some deposited funds appeared to have been improperly diverted, the Sheriff's Department did not have sufficient cash in the bank available to pay the State of Tennessee for the sales tax generated from the commissary operations. The Department of Revenue repeatedly notified the Sheriff's Department of its delinquent sales tax account and assessed Marshall County interest and penalty for tax years 2002 (\$114.91), 2003 (\$1,147.08), and 2004 (\$361.89). Subsequently, the county's General Fund paid the commissary operation's delinquent sales taxes plus all interest and penalty due.

Morgan County Clerk
For the Year Ended June 30, 2005

The office had a cash shortage of \$14,755.93. Our initial examination revealed that three checks for wholesale beer tax totaling \$6,103.19 had not been receipted but had been deposited to the clerk's official bank account. The deposit slips returned by the bank indicated that the wholesale beer tax checks had been substituted for cash. We extended our audit procedures and requested assistance from the Tennessee Bureau of Investigation (TBI) to obtain copies of original documents from certain customers concerning motor vehicle title applications and registrations. The TBI obtained documentation from customers, which revealed that records in the county clerk's office had been altered to reflect lower payments than what the customers actually paid. These transactions resulted in an additional cash shortage of \$8,652.74 for a total cash shortage of \$14,755.93. We have discussed this with the county executive and the district attorney general.

Robertson County School Department
For the Year Ended June 30, 2005

An employee at the school bus garage was indicted on 153 counts, including theft of property, destruction of and tampering with governmental records, official misconduct, criminal conspiracy, and coercion of a witness. In addition, a local body shop owner was indicted on two counts including criminal conspiracy and use of fraudulent documents to obtain property. The state alleges that the school bus garage employee had taken damaged School Department

vehicles to the local body shop owner for repairs, and the two men conspired to overstate the costs of the repairs and steal the difference. The School Department terminated the employment of the school bus garage employee and ceased doing business with the local body shop.

**Robertson County
General Sessions Court**
For the Year Ended June 30, 2005

The general sessions judge questioned the amount of overtime the office supervisor reported and requested an investigation by the Tennessee Bureau of Investigation. During the investigation, the office supervisor admitted to inflating her overtime records. On January 27, 2005, the county terminated her employment. The county is withholding payment of the employee's accumulated vacation leave pending the resolution of this matter by the district attorney general.

**Sequatchie Schools
Director**
For the Year Ended June 30, 2005

The Board of Education approved change orders totaling \$518,000 for the construction of four additional high school classrooms that materially altered existing construction contracts without soliciting competitive bids. The board's existing contracts (\$3,036,000) were for the construction of a new central office building and a cafeteria at an elementary school.

Smith County Mayor
For the Year Ended June 30, 2005

The mayor notified the county attorney, the district attorney general, and us of a bookkeeper improperly receiving reimbursements for postage that she did not purchase. The bookkeeper admitted to improperly receiving reimbursements for postage that she did not purchase. The bookkeeper resigned on October 29, 2004, and was indicted by the Smith County Grand Jury on December 6, 2004, on one count of theft over \$1,000. Based on these improper reimbursements to the bookkeeper, our office performed an additional review of purchases in the county mayor's office. This additional review disclosed the following irregularities.

- A. The bookkeeper received reimbursement for items she did not purchase.
- B. Smith County general government employees had access to and made numerous purchases with county credit cards for personal use. In many instances, we were unable to identify who used the credit cards. These purchases included grocery items, magazines, movies, health and beauty products, clothing, home furnishings, pet supplies, tools, electronics, and equipment.
- C. Computer-mapping software was purchased for \$299 with a county warrant. The warrant was originally issued to the postmaster; however, the warrant had been altered to reflect the software company. The invoice indicated that the software was purchased by and shipped to the bookkeeper's son.
- D. Numerous warrants had been issued to the bookkeeper's son and daughter for services. However, documentation of these services being performed was very questionable.

- E. The county paid two invoices totaling \$169 for flowers that were originally invoiced to the bookkeeper's daughter. The invoices were altered in one instance to show Smith County as the purchaser and in the second instance, to show no one as purchaser.
- F. The bookkeeper's son is an employee of the Sheriff's Department and several reimbursements to him for travel appear to be altered.
- G. A warrant was issued for \$6,369 for a computer-training class. This expense was charged to the Election Commission; however, the Election Commission advised that the training was not for their department. Upon further examination, we located a certificate of completion for the training course issued to the bookkeeper's son.
- H. A warrant was issued for \$1,714.82 to a credit card company to pay the outstanding balance on a personal account.
- I. Several questionable disbursements totaling \$981.06 were paid to the bookkeeper's son as reimbursements for various purchases of computer equipment and for supplies.
- J. Several questionable disbursements totaling \$1,243.23 were made to a cabinet shop owned and operated by the bookkeeper's husband and son. The items purchased have nothing to do with a cabinet shop.
- K. Several questionable computer-related expenditures totaling \$7,724.06 were made.

Smith County Mayor and Sheriff
For the Year Ended June 30, 2005

Payroll disbursements were made to an employee of the Sheriff's Office based on false time reports. The time reports on file in the Sheriff's Office reflected an employee worked two days per week for a year. However, the employee advised us that he did not work at the Sheriff's Department from November 20, 2004, until approximately April 1, 2005. The employee also informed us that he usually worked three days a week, but requested to be paid for only two days per week so that his compensation could be constant throughout the year.

Trousdale Water and Sewer Department
For the Year Ended June 30, 2005

Our audit revealed numerous deficiencies in the operation of the Trousdale County Water and Sewer Department. Some of these deficiencies are noted below.

- A. Grant activity was not included on the department's accounting records.
- B. Some disbursements were not made by prenumbered checks.
- C. Petty cash was not properly administered.
- D. The list of accounts receivable did not reconcile with the general ledger account by a material amount.
- E. Inventories of parts and supplies were not maintained.

- F. The department failed to adequately identify and document capital assets.
- G. Numerous liability accounts were either misdated on the general ledger or were not reflected at all.
- H. The department had purchasing deficiencies. Purchase orders were not issued in some required instances and invoices were paid without documentation that goods had been received or services had been rendered. The office paid invoices without canceling or marking them paid.
- I. Duties were not segregated adequately among officials and employees.

Warren County Trustee
For the Year Ended June 30, 2005

Time records were falsified for an employee who was ill and physically unable to be at work. Time reports indicated that this employee was at work every hour that the trustee's office was open during the year examined and the employee was paid a full salary. However, from our observations and discussions with trustee office personnel and county personnel, we discovered that this employee was only able to come to the office on rare occasions and then for only short periods of time. Since time records were falsified to reflect this employee was at work when often she was not, we were unable to determine the actual amount that should have been paid to this employee during the year.

**Wayne County
Highway Superintendent**
For the Year Ended June 30, 2005

Our audit revealed numerous irregularities in the operation of the Wayne County Highway Department. Some of these irregularities are discussed below.

- A. Payments totaling \$4,865.50 were made to a tire company that did not exist. The bookkeeper wrote the invoices and the warrants paying the invoices; and the warrants were cashed and/or deposited by the bookkeeper into personal bank accounts.
- B. The bookkeeper advised that she converted all funds received from the sale of culverts to cash and gave the funds to the superintendent of highways for his personal use. The bookkeeper and secretary advised us that after the superintendent of highway's death, they cashed checks made payable to the Wayne County Highway Department and divided the proceeds. Two checks totaling \$2,224.71 stolen by the bookkeeper and secretary have been identified.
- C. The bookkeeper certified that she had terminated employment with the Highway Department and fraudulently withdrew funds from the Tennessee Consolidated Retirement System (TCRS). On April 18, 2005, TCRS refunded the bookkeeper \$8,019.76 of accumulated contributions.
- D. The Highway Department had numerous deficiencies in accounting for employees' travel. The superintendent of

highways and certain highway department employees violated several provisions of the travel policy. In addition, several of the trips at county expense appeared to be of questionable benefit to the county, or an abuse of employees' position to travel for personal benefit.

- E. Many disbursements appeared to be questionable. Highway funds were used to purchase personal items, advertisements, Christmas dinner, and gifts for employees without a written policy authorizing such. In addition, individuals were paid for hours that were not worked.

Weakley County
Senior-Citizens Program
For the Year Ended June 30, 2005

The Weakley County Senior-Citizens Center program operated seven checking accounts that were not audited or channeled through the county's budgetary process. Our examination of these accounts disclosed that there was inadequate documentation to support most disbursements. Most of the accounts had not been reconciled monthly. Records were not available to document the source of all funds deposited to these accounts. Because of these deficiencies, we were unable to determine the propriety of many of the transactions channeled through these accounts. Subsequent to our report, the county closed all of these bank accounts.

Information System
Reviews

The following high risk areas involving technology in county governments were identified. These high risk areas could jeopardize data accuracy and financial and operating statement reliability.

- Some applications provided users with the ability to delete and/or alter previously issued receipts leaving no evidence of the original receipt.
- Duties relating to automated accounting functions were often not adequately segregated.
- Computer hard drives and other storage media were not properly disposed of when no longer in use.
- Deficiencies in computer system back-up procedures existed.
- Disaster recovery plans had not been developed.
- Logical access controls were inadequate. In some instances, passwords were not assigned to operating system or application user logins.
- Controls over the physical access to computer systems were inadequate. Computers were located in areas that are easily accessible to unauthorized individuals.
- Computer systems were not adequately safeguarded against computer viruses and spyware.

- Security over wireless networks was not properly configured.
- Proper controls over web-based applications did not exist.

**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

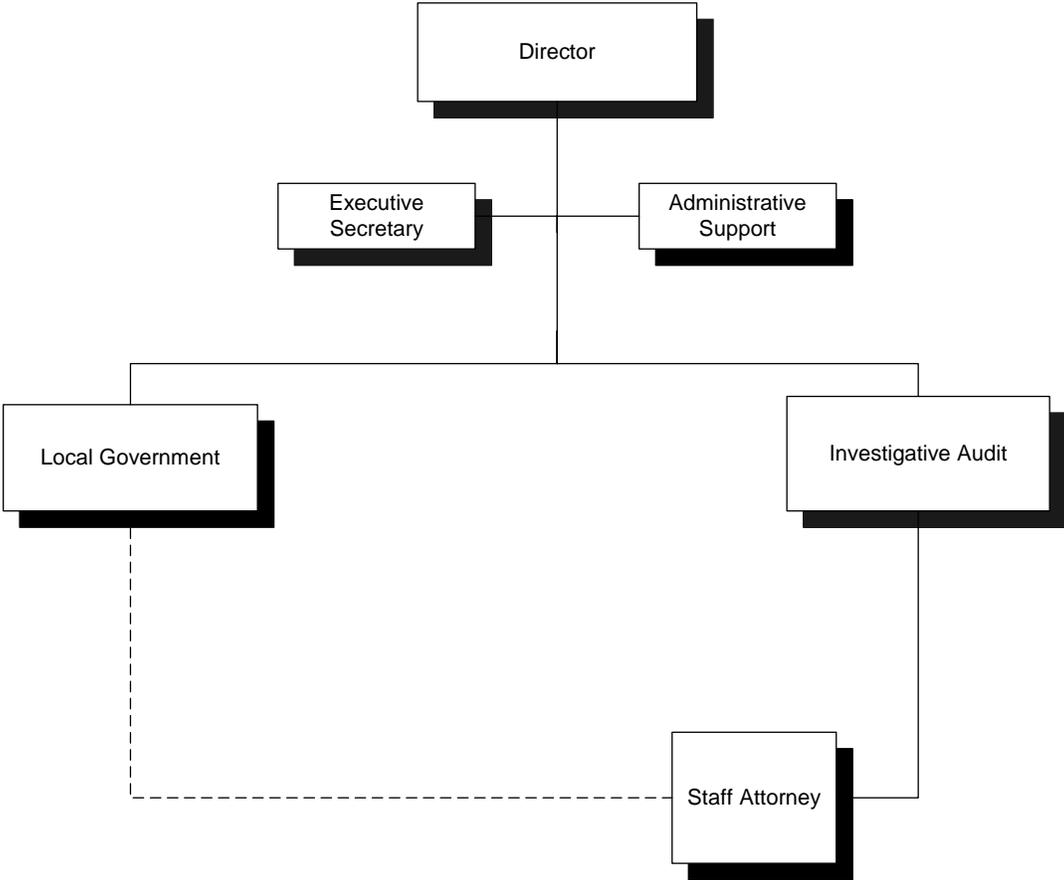
The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, charter schools, and certain nonprofit agencies receiving grants from the State of Tennessee. Also, as required by state statute, the division ensures that an agreed-upon procedures audit is performed for certain day care 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 344 municipalities, 105 city-related entities, 52 quasi governmental entities, 64 quasi nonprofit entities, 188 utility districts, 163 public school activity and noncentralized cafeteria funds, 11 charter schools, 85 housing authorities, 3 housing authority related entities, 60 day care centers, and 183 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 2,142 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 and 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, 2006, 28 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 5 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, 2006, the Division of Municipal Audit performed 951 reviews of audit reports for specified local governments and other publicly funded entities. The division released 20 investigative audits during the year. The entities examined in the 20 investigative audits included 9 municipalities, 4 public schools, 3 nonprofit entities, and 4 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 2006 fiscal year, investigative audits revealed losses of at least \$1,548,672 due to fraud. In total, over 17 defendants' cases were disposed of in fiscal year 2006. Over 66 counts were dealt with. In all, defendants were ordered to pay restitution of \$894,308.

Highlights of Investigative Audits

**Roane Central Utility
District**

Our investigative audit revealed that during the period October 1, 2003, through April 30, 2004, a clerk took at least \$5,789 in district collections without authority. The clerk acknowledged to auditors that she had taken district cash for her own personal use. Auditors also identified internal control weaknesses that helped create an environment which failed to reduce the risk of misappropriation, including: miscellaneous revenue not deposited intact, collections not deposited promptly or intact, failure to account for prenumbered receipts, and failure to prepare daily cash reports.

This matter was referred to the local district attorney. In June 2005, the Roane County Grand Jury indicted Margaret LeMasters on one count of Theft over \$1,000. Ms. LeMasters received Judicial Diversion and was ordered to pay \$10,559 in restitution to the utility district.

**Jefferson County High
School - Jefferson County
Schools**

The investigative audit was limited to a review of collections and disbursements related to the Jefferson County High School's Girls Basketball Program, and focused on the period July 1, 2002, through January 31, 2005. The audit revealed that during this period nearly \$8,000 of girl's basketball collections had not been remitted to the bookkeeper for deposit into a school bank account. The girl's basketball coach failed to retain adequate documentation of program collections and disbursements to determine whether all school money he retained actually benefited the girls' basketball program.

Auditors also identified several internal control weaknesses that contributed to an environment for misappropriation, including: failure to maintain profit analysis and adequate documentation for fundraising/resale activities, supplemental compensation paid directly to employees, sales tax not remitted for resale items, and inadequate controls over use of school facilities.

YWCA of Nashville and Middle Tennessee

Our investigative audit revealed that during the period July 1, 2003, through October 31, 2004, \$1,121.79 in apparently unauthorized credit card charges for personal goods and services were delivered to the former staff accountant or the former staff accountant's address. We identified an additional \$1,427.66 in questionable credit card charges. YWCA officials identified separate and additional questionable charges of \$3,513.89 that were misclassified in categories that appeared to obscure the actual nature of the transaction. However, sufficient supporting documentation could not be obtained from the vendor or from the credit card companies to determine if those charges were for a valid purpose to benefit the YWCA. According to YWCA personnel, the job duties of the former staff accountant included the accounting classification of credit card charges.

Our investigative audit also revealed that at least \$600 in cash collections which were turned over to the former staff accountant was never deposited into a YWCA bank account. The former staff accountant was responsible for making daily bank deposits. In addition, we identified \$260 in petty cash expenditures that were not supported by receipts. According to YWCA personnel, the former staff accountant was responsible for handling petty cash and performing quarterly audits of petty cash.

Finally, our investigative audit revealed that the former staff accountant apparently was paid for 77.26 hours of sick leave which she was not entitled to, per the YWCA time records. According to YWCA officials, the former staff accountant's job responsibilities included the processing of payroll and related duties.

Auditors identified one internal control weakness of inadequate separation of duties that allowed these apparently unauthorized credit card charges to occur without being detected timely.

We referred this matter to the local district attorney. On August 24, 2006, Shearee R. Terry entered a guilty plea. She was sentenced to 3 years, suspended, and placed on 3 years probation. She is required to pay restitution in the amount of \$3,129.45

City of Dunlap

Our investigative audit revealed that during the period December 1, 2000, through May 31, 2003, a former clerk apparently receipted and collected cash for property tax payments and a natural gas collection totaling \$3,794 but failed to deposit the collections into a city bank account. Municipal staff became suspicious when several unexpected taxpayers appeared on the delinquent property tax list. One of the job duties of the former clerk was preparing and sending out delinquent property tax notices. The former clerk was apparently able to continue this scheme without detection because she had complete control of the transaction.

This matter was referred to the local district attorney. In September 2005, the Sequatchie County Grand Jury indicted the former clerk on one count of Theft over \$1,000. On August 1, 2006, Connie Sims pled guilty and was sentenced to 3 years probation, 100 hours of community service, and required to pay restitution in the amount of \$5,394.

**Tennessee School Boards Association
TSB-Risk Mgt. Trust
TSB-Unemployment Compensation Trust**

Pursuant to a request from members of the state legislature, we have completed our investigative audit of selected records of the Tennessee School Boards Association, the Tennessee School Boards Risk Management Trust, and the Tennessee School Boards Unemployment Compensation Trust. This investigative audit focused on the period January 1, 2000, through April 30, 2005.

Tennessee School Boards Association

During the period January 1994 through February 2000, while serving as the executive director of the Tennessee School Boards Association, Dr. Dan Tollett requested and received illegal retirement benefits totaling \$276,856 from the Tennessee Consolidated Retirement System.

On February 19, 2002, the Tennessee School Boards Association's board of directors approved payment by TSBA of \$276,856 to the retirement system for illegal benefits Dr. Tollett had requested and received.

Dr. Tollett also received benefits, including \$107,909 in proceeds from a variable life insurance policy with a cash value, which were not included in his employment contract and were not approved by the board of directors.

Dr. Tollett prepared a fraudulent invoice and ordered payments totaling \$15,307 from the Tennessee School Boards Association and the Center for Educational Leadership bank accounts for legal fees to a number of attorneys apparently retained for the personal benefit of Dr. Tollett and another employee.

In an apparent attempt to circumvent retirement system rules and without the Tennessee School Boards Association board of directors' knowledge, Dr. Tollett entered into a contract to defer \$24,375 of his 2003 salary to 2004.

During the period January 1, 1994, through December 31, 2003, Dr. Tollett improperly received a second employer-funded pension while serving as the Tennessee School Boards Association's executive director. The pension ranged from 10 to 15 percent of Dr. Tollett's salary and totaled \$120,000 over 10 years.

The Tennessee School Boards Association board of directors presented Dr. Tollett and his wife with lavish retirement gifts, paid for with association operating funds, costing \$19,010, including a travel certificate, luggage, Rolex watch, and pearl necklace. In addition, association operating funds paid for a reception on Dr. Tollett's behalf

costing at least \$6,740, which included 18 hotel rooms at the Loews Vanderbilt Hotel for board and trust members as well as over \$500 for alcoholic beverages.

**Tennessee School Boards
Risk Management Trust
Tennessee School Boards
Unemployment
Compensation Trust**

For the fiscal year ended June 30, 2005, the Tennessee School Boards Risk Management Trust program manager, John Evans, collected \$492,694 in fees and commissions from the trust that were not authorized by the board of trustees. This was in addition to \$2.7 million in authorized fees and commissions.

Mr. Evans collected at least \$59,000 during the two years ended June 30, 2005, from interest earned on Tennessee School Boards Risk Management Trust member premiums. These funds were not remitted for use in support of trust purposes.

The Tennessee School Boards Risk Management Trust board of trustees assigned duties to the program manager that created a potential conflict of interest.

An entire segment of Tennessee School Boards Risk Management Trust's operations had not been audited.

Dr. Tollett assumed multiple roles which appeared to create a conflict of interest between his fiduciary duties owed to the Tennessee School Boards Association, the Tennessee School Boards Risk Management Trust, and the Tennessee School Boards Unemployment Compensation Trust.

The board of trustees improperly offered and sold individual liability insurance to Tennessee teachers, including teachers whose school systems were not members of the Tennessee School Boards Risk Management Trust. Coverage was also extended to other ineligible members.

Town of Cornersville

Our investigative audit revealed that during the period July 1, 2004, through July 31, 2005, the former town administrator apparently diverted from the Town of Cornersville at least \$85,351 to which he was not entitled.

Our investigative audit revealed the town administrator prepared unauthorized town checks totaling \$65,710 for his personal benefit. For instance, he prepared and issued a town check in the amount of \$13,496 payable to First Commerce Bank to pay a personal debt. In addition, he prepared and issued a town check in the amount of \$8,923 made payable to Transouth, which held the lien on his personal vehicle. He also prepared and issued town checks payable to himself or to "cash" for which he could provide no legitimate town purpose. The town administrator was responsible for issuing all town checks and reconciling all bank statements.

Our investigative audit also revealed that the former town administrator issued to himself unauthorized payroll checks totaling at least \$7,992, diverted an insurance claim check made payable to the town into an unauthorized bank account he had opened, and apparently made unauthorized purchases using the town's Lowe's charge account in the amount of \$1,569.

This matter was referred to the local district attorney general for his consideration. In January 2006, the Marshall County Grand Jury indicted former city administrator on 29 counts, including Theft over \$60,000.

Town of Oakland

Our investigative audit of selected records of the Town of Oakland focused on the period July 1, 2004, through May 31, 2005. The investigative audit revealed that the mayor had received unreported fringe benefits and excess compensation totaling at least \$26,846.69 relating to the use of city-owned vehicles and receipt of a Christmas bonus from the town. In addition, in October 2004, the city paid \$570 to Apperson, Crump, and Maxwell for personal legal services provided to the town mayor.

Auditors also identified several internal control weaknesses that contributed to an environment susceptible to undetected errors or irregularities, including: purchases made for other than a municipal purpose, unauthorized sale of vacation leave, inadequate leave records, inadequate documentation of hours worked by employees and town officials, and several other issues.

Calhoun-Charleston Utility District

Our investigative audit revealed that during the period October 1, 2002, through January 31, 2006, the district bookkeeper intercepted and set aside checks payable to the district totaling at least \$5,811. She then exchanged these checks for cash through the district's cash drawer, keeping the cash for her own use. On January 26, 2006, the district bookkeeper acknowledged to auditors that for several years, she had taken cash from the utility district to pay her personal bills. This matter was referred to the local district attorney. In April 2006, the McMinn County Grand Jury indicted the district bookkeeper on one count of Theft over \$1,000 and one count of Official Misconduct.

Auditors also identified internal control weaknesses that helped create an environment susceptible for the misappropriation, including: inadequate separation of duties, collections not deposited promptly and intact, failure to account for prenumbered receipts, and failure to prepare daily cash reports.

Recent Developments Related to Prior Years' Investigative Audits – Dispositions

Crab Orchard Utility District

The former general manager, who previously pled guilty to 5 criminal charges, including Forgery and Money Laundering, was sentenced to 10 years in prison. She paid \$414,000 in restitution to the utility district.

The former assistant general manager, who previously pled guilty to 5 criminal charges, including Conspiracy to Commit Theft over \$60,000, received an 8-year sentence. The sentence was suspended to supervised probation; however, she was required to serve 90 days in the Cumberland County Jail. She was also ordered to perform 100 hours of community service.

A former utility commissioner entered into a pretrial diversion agreement with the district attorney's office. He paid \$200,000 in restitution to the utility district.

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

The former PTA/PTO president who diverted more than \$140,000 from the organization accounts for her personal use pled guilty to all 9 counts for which she had been indicted. Those charges include multiple counts of Theft, Forgery, and Money Laundering. She is currently awaiting sentencing.

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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, 2005, the association's most recent award year completed as of December 2006.

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
Greene County
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, 2006, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA) and Certified Fraud Examiner (CFE).

Katie Armstrong	County Audit	CFE
Alla Baranova	State Audit	CFE
Vicky Barber	County Audit	CFE
Kristy Carroll	State Audit	CFE
Angela Collins	County Audit	CPA
Mark Collins	State Audit	CFE
David Cook	State Audit	CPA
Melissa Darby	County Audit	CFE
Adam Gamble	State Audit	CFE
Stephanie Gordon	County Audit	CFE
Lionel Greene	State Audit	CFE
Torrey Grimes	State Audit	CFE
Eugene Hampton, II	County Audit	CPA
Jimmy Hodges	County Audit	CFE
Ben Johnson	State Audit	CFE
Jeff Lafever	State Audit	CFE
Jeff McClanahan	State Audit	CFE
Jan Page	County Audit	CFE
Ben Rogers	State Audit	CFE
Suzanne Sawyers	State Audit	CFE
Andrea Thomas	State Audit	CFE
Julie Vallejo	State Audit	CFE
Jennifer Whitsel	State Audit	CPA
Lisa Williams	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	Edward Burr
Ron Anderson	Mary Cole
Catherine Balthrop	David Cook
Debra Bloomingburg	Donna Crutcher
Gerry Boaz	Michael Edwards
Melissa Boaz	Gregg Hawkins
Walter Bond	Arthur Hayes

Shirley Henry
Teresa Hensley
Marcia Holman
Bob Hunter
Aaron Jewell
Donna Jewell
Teresa Kennedy
Herb Kraycirik
Deborah Loveless
Derek Martin
Sammie Maxwell
Jeff McClanahan
Martha McClune
Karen Phillips
Steve Phillips
Robyn Probus

Chuck Richardson
Julie Rogers
Brent Rumbley
Thad Sanders
Joseph Schussler
Suzanne Smotherman
Scarlet Sneed
Kandi Thomas
Judy Tribble
Rebecca Troyani
Clare Tucker
Wendell Voss
Patricia Wakefield
Jennifer Whitsel
Dan Willis

Division of County Audit

Penny Austin
Jeff Bailey
Nolan Bradford
Sharee Brewer
Brad Burke
Bryan Burklin
Angela Collins
Melissa Darby
Jerry Durham
Marie Elliott
Michael Ford
Eugene Hampton, II
Amy Hembree
Kevin Huffman
Michael Hulme

Joe Kimery
Kelley McNeal
Jan Page
Gary Ramsey
Steve Reeder
Anita Scarlett
David Sturtevant
Lester Tackett
Christy Tennant
Mark Treece
Clifford Tucker
Andrew Way
Kent White
Greg Worley

Division of Municipal Audit

Robert Allen
Lisa Bellar
Rene Brison
Bill Case
Dennis Dycus
Iris Haby
Timothy Hardy

Philip Job
Greg Lawrence
Michael Mayhan
Rebecca McElrath
Sheila Reed
Lewis Robbins
Jean Suh

Certified Fraud Examiner

Division of State Audit

Amy Abbott
Ron Anderson
Alla Baranova
Debra Bloomingburg
Melissa Boaz
Walter Bond
Kristy Carroll
Bridget Carver
Mark Collins
Donna Crutcher

Melinda Crutchfield
Nichole Curtiss
Adam Gamble
Loniel Greene
Torrey Grimes
Gregg Hawkins
Arthur Hayes
Amanda Hoback
Aaron Jewell
Donna Jewell

Ben Johnson
Jeff Lafever
Jacqueline Laws
Jennifer Lewis
Cindy Liddell
Derek Martin
Mary McCalip
Jeff McClanahan
Bob McCloud
Glen McKay
Richard Murray
Tabitha Peden
Beth Pendergrass
Valerie Petty
Steve Phillips
Scott Price
Sheilah Pride
Robyn Probus
Barbara Ragan
Alicia Reed
Chris Risher
Ben Rogers

Brent Rumbley
Suzanne Sawyers
Scarlet Sneed
Andrea Thomas
Kandi Thomas
Tammy Thompson
Judy Tribble
Rebecca Troyani
Clare Tucker
Julie Vallejo
Helen Vose
Patricia Wakefield
Jonathan Ward
Lisa White
Jennifer Whitsel
Michael Wilbanks
Clementine Williams
Lisa Williams
Melissa Wilson
David Wright
Sonja Yarbrough

Division of County Audit

Nathan Abbott
Katie Armstrong
Jeff Bailey
Vicky Barber
Robin Bates
Sharee Brewer
Rachelle Bunch
Melissa Darby
Rhonda Davis
Jerry Durham

Sherrie Gill
Stephanie Gordon
Wendy Heath
Jimmy Hodges
Joe Kimery
Jan Page
Steve Reeder
David Sturtevant
Patty Vargo
Kent White

Division of Municipal Audit

Robert Allen
William Bright
Rene Brison
Dennis Dycus

Timothy Hardy
Philip Job
Michael Mayhan
Lewis Robbins

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

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

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	David Sturtevant
Michael Ford	Lester Tackett
David Frakes	Lee Ann West
Eugene Hampton, II	Kent White
Kevin Huffman	Horace Wiseman
Michael Hulme	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, 2006****Financial and Compliance Audits****State Departments, Agencies, and Institutions**

CAFR 2005
Clean Water State Revolving Fund
Department of Children's Services
Department of Education
Department of Finance and Administration
Department of Health
Department of Labor and Workforce Development
Department of Human Services
Department of Revenue
Department of Safety
Department of State
Department of Transportation
Department of the Treasury
Executive Department
Health Services and Development Agency
Local Government Group Insurance Fund
Medicare Supplement Insurance Fund
Single Audit 2005
Teacher Group Insurance Fund
Tennessee Commission on Aging and Disability
Tennessee Commission on Children and Youth
Tennessee Consolidated Retirement System
Tennessee Council of Juvenile and Family Court Judges
Tennessee Education Lottery Corporation
Tennessee Housing Development Agency
Tennessee Local Development Authority

**State Audits Released
During the Year Ended
June 30, 2006 (Cont.)**

Tennessee Regulatory Authority
Tennessee Residence Foundation
Tennessee Sports Hall of Fame
Tennessee State School Bond Authority
Tennessee State Veterans' Home Board (2005)
Tennessee State Veterans' Home Board (2006)
Tennessee Student Assistance Corporation

Universities, Colleges, and Foundations

Austin Peay State University
Chattanooga State Technical Community College
Chattanooga State Technical Community College Foundation
Cleveland State Community College
Columbia State Community College
Dyersburg State Community College
East Tennessee State University
Middle Tennessee State University
Motlow State Community College
Tennessee Technological University (2005)
Tennessee Technological University (2006)
University of Memphis
University of Tennessee
University of Tennessee Radio Station (WUOT)
Volunteer State Community College

Community Services Agencies

Davidson County Metropolitan Community Services Agency
East Tennessee Community Services Agency
Knox County Community Services Agency
Memphis Shelby County Community Services Agency
Mid Cumberland Community Services Agency
Northeast Community Services Agency (2005)
Northeast Community Services Agency (2006)
Northwest Community Services Agency
South Central Community Services Agency
Southwest Community Services Agency
Upper Cumberland Community Services Agency

TennCare Audits

John Deere Health Plan
Memphis Managed Care Corporation
Preferred Health Partnership of TN, Inc.
Bristol Nursing Home
Elm Hurst Nursing Home, Inc.
Etowah Health Care Center
Hillview Health Center

**State Audits Released
During the Year Ended
June 30, 2006 (Cont.)**

Lakeshore-Heartland
Mariner Health of Newport
Serene Manor Medical Center
State Health Insurance Plans
Westmoreland Care and Rehabilitation Center

Performance Audits

Board of Probation and Parole
Department of Environment and Conservation
Department of General Services
East Tennessee Community Services Agencies
Health Related Boards
Memphis Shelby County Community Services Agency
Middle Tennessee Community Services Agencies
Select Oversight Committee on Corrections
Tennessee Wildlife Resources Agency

**County Audits Released
During the Year Ended
June 30, 2006**

**Financial and Compliance
Annual Financial Reports or Comprehensive Annual
Financial Reports (CAFR)
For the Year Ended June 30, 2005**

Counties

Anderson (CAFR)	Dyer	Jefferson
Bedford	Fayette	Johnson
Benton	Fentress	Lake
Bledsoe	Franklin	Lauderdale
Blount (CAFR)	Gibson	Lawrence
Bradley (CAFR)	Giles	Lewis
Campbell	Grainger	Lincoln
Cannon	Greene (CAFR)	Loudon
Carroll	Grundy	Macon
Carter	Hamblen	Madison
Cheatham	Hancock	Marion
Chester	Hardeman	Marshall
Claiborne	Hardin	Maury
Clay	Hawkins	McNairy
Cocke	Haywood	Meigs
Coffee	Henderson	Monroe
Crockett	Henry	Montgomery
Cumberland	Hickman	Moore
Decatur	Houston	Morgan
DeKalb	Humphreys	Obion
Dickson	Jackson	Overton

Perry	Sequatchie	Van Buren
Pickett	Sevier	Warren
Polk	Smith	Wayne
Putnam	Stewart	Weakley
Rhea	Sullivan	White
Roane	Tipton	Williamson
Robertson	Trousdale	Wilson
Rutherford (CAFR)	Unicoi	
Scott	Union	

Special School Districts

Paris Special School District
McKenzie Special School District

Information System Reviews

Bledsoe	Hickman	Polk
Cannon	Houston	Putnam
Carter	Jackson	Rhea
Clay	Lake	Roane
Coffee	Lauderdale	Scott
Dickson	Lawrence	Sequatchie
Franklin	Lewis	Sevier
Gibson	Madison	Trousdale
Grainger	Marshall	Union
Greene	Maury	Warren
Hamblen	Meigs	Wayne
Hancock	Morgan	Williamson
Haywood	Obion	Wilson
Henderson	Perry	
Henry	Pickett	

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, 2004, through June 30, 2005)
- Limited Review of the Sumner County Office of Sheriff, Financial Management Committee, and Finance Director for the period July 1, 2003, through June 30, 2005
- Limited Review of the Gibson County Senior Citizens Center for the period July 1, 2003, through February 28, 2006
- Sevier County General Sessions Court Clerk for the period July 1, 2003, through August 31, 2004
- Review of Payments to Don Stoughton and Associates, Inc. (August 29, 2006)
- Limited Review of the Morgan County Clerk for the period July 1, 2004, through February 28, 2006

**Municipal Audit
Investigative Audit
Reports Released
During the Year Ended
June 30, 2006**

Roane Central Utility District
Jefferson County High School - Jefferson County Schools
YWCA of Nashville and Middle Tennessee
City of Dunlap
Tennessee School Boards Association TSB-Risk Mgt. Trust, TSB-
Unemployment Compensation Trust
Tennessee School Boards Association
Tennessee School Boards Risk Management Trust, Tennessee School
Boards Unemployment Compensation Trust
Town of Cornersville
Town of Oakland
Calhoun-Charleston Utility District

**Comptroller of the Treasury
Department of Audit
Schedule of Revenues, Expenditures, and Reserves
For the Years Ended June 30, 2006, and June 30, 2005**

	Year Ended June 30, 2006				Year Ended June 30, 2005			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES	\$ 7,099.54	\$ -	\$ -	\$ 7,099.54	\$ -	\$ -	\$ -	\$ -
REVENUES								
Appropriation	10,018,300.00	6,426,400.00	1,454,800.00	17,899,500.00	9,436,600.00	6,384,600.00	1,362,100.00	17,183,300.00
Departmental revenues	4,323,424.54	871,811.29	221,553.43	5,416,789.26	4,092,042.79	681,750.03	173,675.42	4,947,468.24
Total revenues	14,341,724.54	7,298,211.29	1,676,353.43	23,316,289.26	13,528,642.79	7,066,350.03	1,535,775.42	22,130,768.24
Total reserves and revenues	14,348,824.08	7,298,211.29	1,676,353.43	23,323,388.80	13,528,642.79	7,066,350.03	1,535,775.42	22,130,768.24
EXPENDITURES								
Personal services	9,270,754.41	4,840,145.76	1,094,477.03	15,205,377.20	9,063,099.14	4,686,332.92	1,020,555.90	14,769,987.96
Employee benefits	2,940,795.51	1,548,640.95	334,185.63	4,823,622.09	2,852,090.10	1,488,953.32	310,671.22	4,651,714.64
Total payroll	12,211,549.92	6,388,786.71	1,428,662.66	20,028,999.29	11,915,189.24	6,175,286.24	1,331,227.12	19,421,702.60
Travel	523,998.99	459,814.01	37,281.07	1,021,094.07	534,858.81	427,015.99	42,281.25	1,004,156.05
Printing, duplicating, and film processing	54,959.05	95,474.03	6,021.42	156,454.50	58,732.51	100,936.43	5,554.70	165,223.64
Communication and shipping costs	21,027.47	27,477.95	5,249.10	53,754.52	17,555.56	26,790.38	7,128.51	51,474.45
Maintenance, repairs, and service	-	-	-	-	74,036.13	65.00	349.47	74,450.60
Professional and administrative services	149,696.71	56,721.68	6,453.10	214,871.49	163,275.36	59,464.65	4,250.54	226,990.55
Supplies	21,489.74	18,541.12	6,354.35	46,385.21	26,227.08	11,522.21	5,498.94	43,248.23
Rentals and insurance	384,723.60	120,656.39	66,536.00	571,915.99	402,490.16	126,290.78	66,536.00	595,316.94
Motor vehicle operations	45.00	-	-	45.00	-	70.00	-	70.00
Awards and indemnities	466.73	300.00	-	766.73	84.15	-	-	84.15
Grants and subsidies	95,345.10	34,046.25	8,614.00	138,005.35	59,662.82	22,792.74	4,109.10	86,564.66
Billings and records management	21,626.63	17,657.02	5,424.71	44,708.36	34,320.15	19,574.30	6,054.87	59,949.32
Total other	1,273,379.02	832,688.45	141,933.75	2,248,001.22	1,371,242.73	794,522.48	141,763.38	2,307,528.59
Total current year	13,484,928.94	7,221,475.16	1,570,596.41	22,277,000.51	13,286,431.97	6,969,806.72	1,472,990.50	21,729,231.19
Excess of reserves and revenues over expenditures	\$ 863,895.14	\$ 76,736.13	\$ 105,757.02	\$ 1,046,388.29	\$ 242,210.82	\$ 96,541.31	\$ 62,784.92	\$ 401,537.05
Reserves carried forward for encumbrances	\$ 4,269.59	\$ -	\$ -	\$ 4,269.59	\$ 7,099.54	\$ -	\$ -	\$ 7,099.54
Amount reverting	859,625.55	76,736.13	105,757.02	1,042,118.70	235,111.28	96,541.31	62,784.92	394,437.51
Total	\$ 863,895.14	\$ 76,736.13	\$ 105,757.02	\$ 1,046,388.29	\$ 242,210.82	\$ 96,541.31	\$ 62,784.92	\$ 401,537.05



National State Auditors Association

State of Tennessee
Comptroller of the Treasury
Department of Audit

External Peer Review
For the Period July 1, 2005 through June 30, 2006
REPORT

449 Lewis Hargett Circle ■ Suite 290 ■ Lexington, KY 40503 ■ (859) 276-1147 ■ www.nasact.org



National State Auditors Association

August 2, 2006

Mr. John G. Morgan
Comptroller of the Treasury
State of Tennessee

Dear Mr. Morgan:

We have reviewed the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit (Department) in effect for the period July 1, 2005 through June 30, 2006. 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 applicable auditing standards. These standards include Government Auditing Standards for the Department's financial and performance audits and attestation standards issued by the American Institute of Certified Public Accountants for attestation engagements. The design of the system of quality control 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 Auditors Association (NSAA). In performing our review, we obtained an understanding of the Department's system of quality control for engagements conducted in accordance with the applicable auditing standards. In addition, we tested compliance with the Department's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Department's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

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

In our opinion, the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period July 1, 2005 through June 30, 2006 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with applicable auditing standards.

Karen Helderman
Team Leader
National State Auditors Association
External Peer Review Team

Bryan Naab
Concurring Reviewer
National State Auditors Association
External Peer Review Team

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