

**Tennessee Advisory Commission on
Intergovernmental Relations**

**For the Years Ended
June 30, 1999, and June 30, 1998**

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November 1, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Dr. Harry Green, Executive Director
Tennessee Advisory Commission on Intergovernmental Relations
Suite 508, 226 Capital Boulevard Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Advisory Commission on Intergovernmental Relations for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the commission's compliance with the provisions of laws, regulations, and contracts significant to the audit. Management of the Tennessee Advisory Commission on Intergovernmental Relations is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The commission's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal controls to the Tennessee Advisory Commission on Intergovernmental Relations' management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sk
00/012

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Advisory Commission on Intergovernmental Relations
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT SCOPE

We have audited the Tennessee Advisory Commission on Intergovernmental Relations for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDING

Documentation Not Maintained for Financial Integrity Act

The commission has not maintained documentation of its annual evaluation of internal accounting and administrative controls, as required by the Financial Integrity Act of 1983.

PRIOR AUDIT FINDINGS

The audit report contains no prior audit findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Advisory Commission on Intergovernmental Relations
For the Years Ended June 30, 1999, and June 30, 1998

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Tennessee Advisory Commission on Intergovernmental Relations For the Years Ended June 30, 1999, and June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The Tennessee Advisory Commission on Intergovernmental Relations was created by the General Assembly in 1978 to monitor federal, state, and local government relations in Tennessee, to make recommendations for their improvement. The commission serves as a forum for the discussion and resolution of intergovernmental problems.

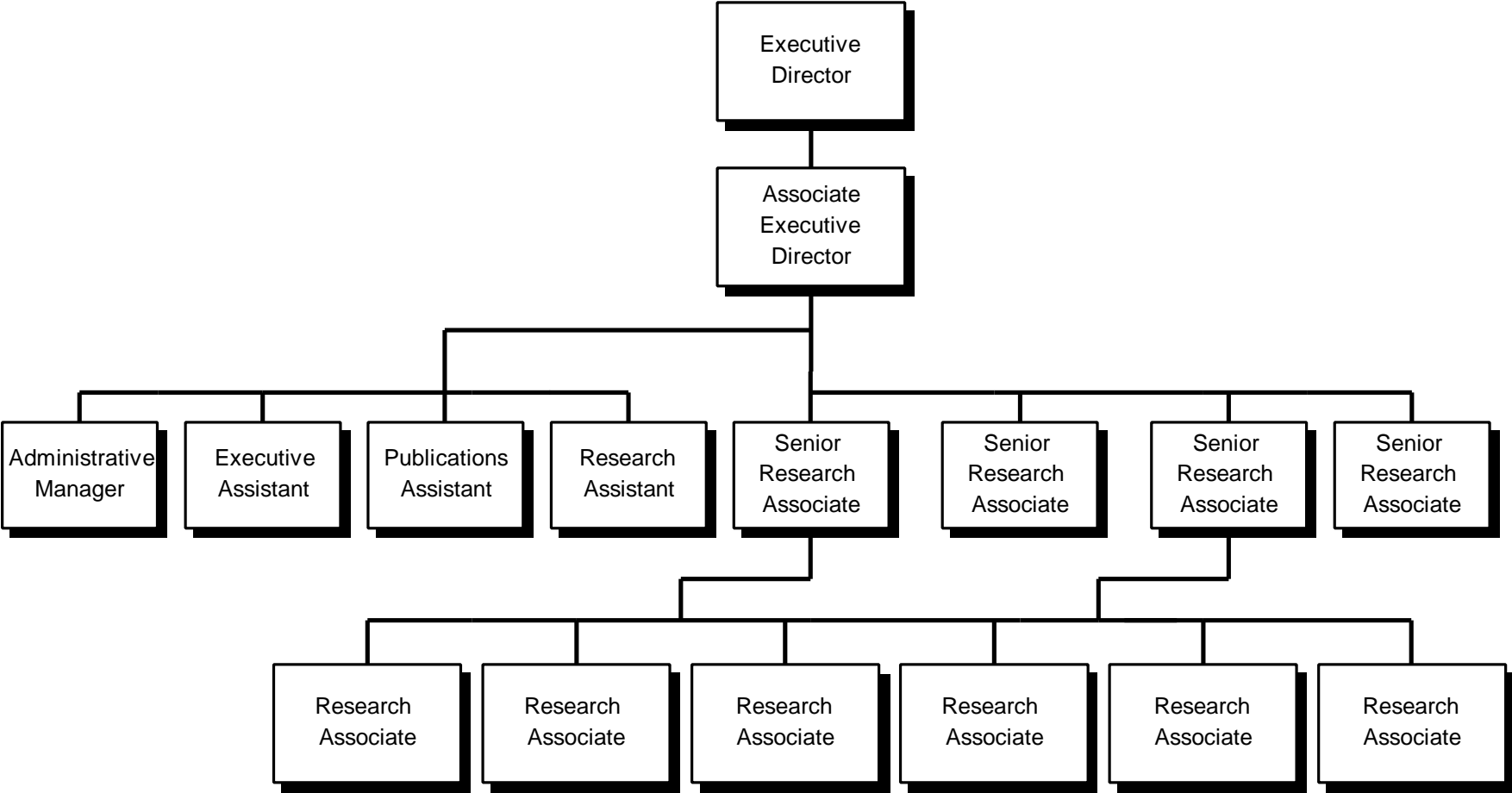
The duties of the commission involve the study of problems related to the federal, state, and local intergovernmental system. The commission may initiate studies and make recommendations for the purpose of drafting and disseminating legislative proposals and constitutional amendments necessary to implement its recommendations.

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

AUDIT SCOPE

We have audited the Tennessee Advisory Commission on Intergovernmental Relations for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, and compliance with the

Tennessee Advisory Commission on Intergovernmental Relations



Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUES

Our objectives in reviewing revenue were to

- obtain and document an understanding of management controls relevant to the revenue process,
- obtain an extract of the commission's revenues using Audit Command Language (ACL) and analyze data for unusual activity using selected Computer Assisted Audit Techniques,
- determine whether the commission has any unusual revenue items,
- determine whether the petty cash fund has been authorized by the Department of Finance and Administration, and
- determine whether the auditee records are reconciled with the Department of Finance and Administration reports.

We discussed management controls and procedures with key personnel to gain an understanding of the commission's procedures in these areas. We reviewed budgets and performed analytical procedures to determine whether the office has complied with the state's rules and regulations. We had no findings related to revenues.

EXPENDITURES

Our objectives in reviewing expenditures were to

- obtain and document an understanding of management controls relevant to the expenditure process,
- determine whether expenditures for goods or services are authorized and in accordance with the budget and other regulations or requirements,

- review the commission's activities and determine the types of expenditures the commission makes,
- obtain an extract of the commission's expenditures using Audit Command Language (ACL) and analyze data for unusual activity using selected Computer Assisted Audit Techniques,
- determine whether auditee records were reconciled with Department of Finance and Administration reports,
- determine whether payments for travel were paid in accordance with the Comprehensive Travel Regulations,
- determine whether contracts were established in accordance with regulations, and
- determine whether contract payments are in compliance with contract terms and purchasing guidelines and were properly approved and recorded against the contract.

We discussed management controls and procedures with key personnel to gain an understanding of the commission's procedures over these areas. We reviewed supporting documentation and tested a sample of transactions to determine that the office has complied with the state's rules and regulations. We had no findings related to expenditures.

EQUIPMENT

Our objectives in reviewing equipment were to determine whether

- information on the Property of the State of Tennessee (POST) property listing is accurate,
- lost and missing equipment is properly reported to the Comptroller's office and is removed from the equipment listings, and
- property and equipment are adequately safeguarded.

We discussed controls and procedures over equipment with key management personnel to gain an understanding of the commission's procedures over these areas. We tested a sample of equipment on the property listing to ensure that the information on the listing agreed with the actual item. We had no findings related to equipment.

PAYROLL AND PERSONNEL

Our objectives in reviewing payroll and personnel were to determine whether

- payroll disbursements were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations; and
- temporary employees who are retirees of the Tennessee Consolidated Retirement System were employed in compliance with Section 8-36-805, *Tennessee Code Annotated*.

We discussed controls and procedures over payroll and personnel with key management personnel to gain an understanding of the commission's procedures over these areas. We tested a sample of payroll transactions to ensure that the information agreed with the employees' personnel files.

We had no findings related to payroll and personnel; however, other minor weaknesses came to our attention, which have been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate its systems of internal accounting and administrative control each year and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year. For the fiscal year ended June 30, 1998, the commission filed its compliance report on December 31, 1997.

The objectives of our review of the Tennessee Advisory Commission on Intergovernmental Relations' compliance with the Financial Integrity Act were to determine whether

- the commission's reports were filed in compliance with the Financial Integrity Act of 1983,
- documentation to support the commission's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions had been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the report to gain an understanding of the procedures. We determined that supporting documentation was not maintained, as discussed in the finding.

FINDING AND RECOMMENDATION

The commission should maintain documentation of the evaluation of internal control

Finding

The Tennessee Advisory Commission on Intergovernmental Relations has not maintained documentation of its annual evaluation of internal accounting and administrative controls, as required by the Financial Integrity Act of 1983. Although a report was prepared for calendar year 1997, the commission did not maintain documentation of compliance with the Financial Integrity Act.

Prior to March 25, 1998, *Tennessee Code Annotated (TCA)*, Section 9-18-104, stated, “By December 31 of each year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under the preceding section, prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report . . .” Furthermore, the Department of Finance and Administration’s *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*, May 1986, states:

Adequate written documentation is to be maintained. In particular, documentation shall be maintained for activities conducted in connection with vulnerability assessments, internal control reviews and follow-up actions in order to provide a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached.

This law was still in effect for the December 1997 report.

The Financial Integrity Act was modified on March 25, 1998. The amended law changes the commission’s future reporting responsibilities. *TCA*, Section 9-18-104(a), now states,

By June 30, 1999, and each year thereafter, the head of each executive agency . . . shall submit to the commissioner of finance and administration and the comptroller of the treasury a letter acknowledging responsibility for maintaining the internal control system of the agency.

TCA, Section 9-18-104(b)(1), further states, “By December 31, 1999, and December 31 of every fourth year thereafter, the head of each executive agency shall . . . prepare and transmit

. . . a report . . .” This report on the commission’s internal control system must be prepared in accordance with guidelines established by the Commissioner of Finance and Administration, in consultation with the Comptroller of the Treasury.

The commission has not complied with these documentation requirements for the calendar year 1997. Since documentation of an annual evaluation was not available, there is no assurance that reliable data was obtained and fairly disclosed in the report.

Recommendation

Management should maintain written documentation of its evaluation of the commission’s internal accounting and administrative controls in compliance with the Financial Integrity Act guidelines.

Management’s Comment

We concur with your finding regarding our failure to maintain documentation of our 1997 evaluation of internal accounting and administrative controls, as required by the Financial Integrity Act of 1983. We will comply and properly maintain documentation relating to our future evaluations of controls. We understand that such an evaluation is to be completed by our agency by December 31, 1999 and is to be conducted every fourth year thereafter. Also, an annual letter to the Commissioner of Finance and Administration and the Comptroller of the Treasury acknowledging responsibility for our internal control system will be due. To help ensure that we conduct these evaluations properly, our Executive Administrative Assistant will attend the course given by F&A, Division of Accounts, Evaluating A Government’s Internal Control on September 30, 1999.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

APPENDIX

ALLOTMENT CODE

The Tennessee Advisory Commission on Intergovernmental Relations' allotment code is 316.12.