



PERFORMANCE AUDIT REPORT

Douglas Henry State Museum Commission Including the Tennessee State Museum

May 2019

Justin P. Wilson
Comptroller of the Treasury



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May 20, 2019

The Honorable Randy McNally
Speaker of the Senate
The Honorable Glen Casada
Speaker of the House of Representatives
The Honorable Kerry Roberts, Chair
Senate Committee on Government Operations
The Honorable Martin Daniel, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Tom Smith, Chair, Douglas Henry State Museum Commission
Ms. Ashley Howell, Executive Director, Tennessee State Museum
1000 Rosa Parks Boulevard
Nashville, Tennessee 37208

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period July 1, 2017, through March 31, 2019. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed certain findings, which are detailed in the Audit Conclusions section of this report. Managements of the Douglas Henry State Museum Commission and the Tennessee State Museum have responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Douglas Henry State Museum Commission should be continued, restructured, or terminated.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA, Director
Division of State Audit

DVL/jw
19/045



Division of State Audit

Douglas Henry State Museum Commission
Including the Tennessee State Museum
Performance Audit
May 2019

Our mission is to make government work better.

AUDIT HIGHLIGHTS

Douglas Henry State Museum Commission's Mission

To work to ensure that the citizens of [Tennessee] have access and exposure to the museum collections and special changing exhibits, and that current collections are preserved appropriately and exposed to the public. Further, it is the mission of the commission to work to ensure that future acquisitions are made in a deliberate manner in support of the mission and goals of the museum, for the purpose of the educational and cultural enrichment of citizens of the state.

Tennessee State Museum's Mission

To procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans, and to provide exhibitions and programs for the educational and cultural enrichment of the citizens of the state.

We have audited the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period July 1, 2017, through March 31, 2019. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, and procedures to follow up on prior audit findings in the following areas:

- the commission's statutory obligations relating to membership qualifications, meeting frequency, member attendance and quorum, and conflicts of interest;
- the museum's inventory and collections process, including controls over the custody of the Tennessee State Museum Foundation's alcoholic beverage inventory;
- museum employee background checks and time and attendance;
- controls over the museum's information systems; and
- the museum's staffing levels and the impact of turnover on the museum's operations.

Scheduled Termination Date:

June 30, 2020

KEY CONCLUSIONS

FINDINGS

- While we found that Tennessee State Museum management and staff have made improvements in demonstrating compliance with acquisitions policies and procedures, we still found instances of noncompliance with the museum's collections manual and with the newly implemented internal control process (page 18).
- While Tennessee State Museum management has made improvements in internal controls over time and attendance, we found continued noncompliance with the museum's timesheet process and data entry errors, resulting in minor payroll overpayments (page 30).
- The Tennessee State Museum did not properly follow industry best practices governing information systems controls, resulting in control deficiencies in two specific areas (page 33).

OBSERVATIONS

The following topics are included in this report because of their effect on the operations of the Douglas Henry State Museum Commission, the Tennessee State Museum, and the citizens of Tennessee:

- Water leaks continue to threaten objects in the Tennessee State Museum's collection that are on display or housed in storage (page 20).
- Tennessee State Museum management lacked internal controls over the inventory of the alcoholic beverages stored on-site (page 26).

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INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Douglas Henry State Museum Commission, which oversees the Tennessee State Museum, was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-241, the commission is scheduled to terminate June 30, 2020. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the commission should be continued, restructured, or terminated.

BACKGROUND

Douglas Henry State Museum Commission

In 2009, through Section 4-20-301, *Tennessee Code Annotated*, the General Assembly transferred the supervision of the Tennessee State Museum from the Tennessee Arts Commission to an independent Douglas Henry State Museum Commission. The Tennessee State Museum was created in 1937, under Section 4-12-101, *Tennessee Code Annotated*, for the purpose of bringing together the administration of various collections, articles, and specimens owned by the state.

The Douglas Henry State Museum Commission is authorized and empowered to oversee the operations of the museum; employ an Executive Director; promulgate rules and regulations for the museum's operation and administration; and otherwise be the sole governing authority of the museum. The commission's mission is

to work to ensure that the citizens of [Tennessee] have access and exposure to the museum collections and special changing exhibits, and that current collections are preserved appropriately and exposed to the public. Further, it is the mission of the commission to work to ensure that future acquisitions are made in a deliberate manner in support of the mission and goals of the museum, for the purpose of the educational and cultural enrichment of citizens of the state.

The commission consists of 13 voting members and 2 ex-officio, non-voting members—the museum's Executive Director and the president of the Tennessee Historical Society or his or her designee. The 13 voting members appointed or serving by virtue of position include

- two members appointed by the Speakers of the House and Senate (four-year terms);
- six members appointed by the Governor (three-year terms);
- one member jointly appointed by the Speakers of the House and Senate; and

- the chairs of the House and Senate Finance, Ways and Means Committee or their designees.

The commission employs an Executive Director to whom it delegates its authority to hire and manage other experts as necessary to perform daily management functions of the museum. The commission’s Audit Committee is charged with developing and communicating a written code of conduct for all commission members and museum employees. The Audit Committee is also responsible for reviewing the museum’s process for monitoring the museum’s compliance with laws and regulations, risk assessments, and internal control structure.

The commission’s code of conduct reminds the commission members, museum management, and staff of their individual responsibility to reflect the following in the course of carrying out their role within the museum’s operations. All should

- show respect for the public nature of the museum;
- maintain the highest level of integrity with regard to financial operations and any related financial reporting responsibilities of the museum;
- commit to protect museum assets from fraud, waste, and abuse;
- comply with all relevant laws, rules, policies and procedures; and
- avoid engaging in activities that would otherwise bring dishonor to the museum.

Tennessee State Museum

Mission and Organizational Structure

The mission of the Tennessee State Museum is “to procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans, and to provide exhibitions and programs for the educational and cultural enrichment of the citizens of the state.” Staffed by 60 employees, the museum is organized into 7 departments:

Administration, Collections, Communications, Exhibits, Special Projects, Operations, and Education and



Front view of the new Tennessee State Museum.
Source: Museum management.

Community Engagement. Each department is led by a director, who reports to the museum's Executive Director.

The Administration Department oversees the museum's fiscal activities, contracts and grants, human resources, and procurement.

The commission's organizational chart is on page 8.

The Collections Department manages the museum's collection and curatorial work, which includes

- cataloging and improving documentation for museum collection artifacts;
- developing and contributing to museum exhibit projects; and
- serving the public through inquiry responses, presentations, publications, and exhibition loans.

The Communications Department oversees marketing, advertising, public relations, and social media for the museum. This includes promotional awareness for the museum's activities and events, as well as related historical stories or coverage that reflects the state's history, art, and culture.

The Exhibits Department is responsible for planning and implementing all exhibition design and installation activities, as well as overseeing a statewide traveling exhibition program and field service work with other museums and related institutions across Tennessee.

The Special Projects Department oversees initiatives that directly relate to the museum's presence in the community as a state agency and cultural institution. Such initiatives include maintaining the museum's accreditation status with the American Alliance of Museums; overseeing training and program evaluations; and reviewing and advising on the revision of museum policies and procedures. As part of this process, the department also forges and maintains relationships with community groups that prepare staff to work with a diverse population so that all visitors feel welcome in the museum.

The Operations Department oversees general visitor interactions by greeting them and responding to general questions (hours, lockers, wheelchairs, directions throughout the museum, nearby attractions and restaurants, etc.). This department also oversees the museum store, facility rental, special events, and volunteers. The Operations Department is the liaison with the Department of General Services for security, facility maintenance, and custodial services, and with the Department of Finance and Administration's Strategic Technology Solutions for technical issues.

The Education and Community Engagement Department is responsible for the museum's public outreach, including tours of the Tennessee State Capitol; museum programs for school groups; education programs for public visitors; the museum's Tennessee history website, www.tn4me.org/; museum floor management; and the museum's presence at festivals and other public events.



Interior view of the new Tennessee State Museum.
Source: Museum management.

Locations and Collections

In October 2018, the new Tennessee State Museum opened on the northwest corner of the Bicentennial Mall in Nashville, encompassing 137,000 square feet of administration and gallery space. The Military Museum occupies another 7,000 square feet in the War Memorial Building. Museum management and staff manage the artifact collections that are housed at the state museum, the James K. Polk Building, the War Memorial Military Museum facilities, the Governor's Executive Residence,

and the Tennessee State Capitol. Additionally, the museum holds and oversees the leases of the Lorraine Motel¹ at the National Civil Rights Museum in Memphis and the Green McAdoo Cultural Center in Clinton,² and it owns the artifacts at the Tennessee Sports Hall of Fame.

The museum's permanent exhibition galleries are divided into six chronological sections:

- "Natural History" (the state's geological history);
- "First Peoples" (pre-Columbian native cultures);
- "Forging a Nation" (1760 to 1860);
- "The Civil War and Reconstruction" (1860 to 1870);
- "Change and Challenge" (1870 to 1945); and
- "Tennessee Transforms" (1945 to present).

The museum's "Tennessee Time Tunnel" serves as an orientation pathway to all permanent galleries, which cover 13,000 years of history and highlight important events and people that shaped the history of our state and nation. The museum facility also includes a children's gallery, which offers a Tennessee-themed reading area and activity stations for families with young children.



Example of the museum's collection at the new Tennessee State Museum.
Source: Museum management.

The Military Museum exhibits that are on display in the War Memorial Building focus on America's overseas conflicts, beginning with the Spanish-American War in 1898 and ending with the Vietnam War. The exhibits detail the beginnings, major battles, and outcomes of each war.

¹ The Lorraine Motel was the site of Dr. Martin Luther King, Jr.'s assassination.

² The Green McAdoo Cultural Center is the site of Clinton High School, the first desegregated public high school in the South.

Additionally, the plaza outside the Military Museum features memorials to Tennessee soldiers who died in World War I, the Korean War, and the Vietnam War.

Education

In addition to tours of the historic state capitol, the museum offers other educational and enrichment programming for two distinct demographic groups:

1) K–12 education: Services for the education community include tours, scavenger hunts, and first-person interpretations for pre-school groups, as well as public, private, and home schools. Statewide in-services and workshops for teachers are offered and are designed to promote museum resources that enhance the state’s curriculum standards. The museum has also expanded its focus on serving schools throughout the state by improving its Tennessee Traveling Trunk Program and adding digitally based distance learning programs so that students can connect with the museum online.



Example of the museum’s educational programs.
Source: Museum management.

2) Community engagement: These programs target not only families with children, but also adults and senior adults. Services include special highlight tours; family events such as the museum’s annual Haunted Museum and Storytelling Festival; Lunch and Learn programs; a monthly book club; and day trips to other museums throughout the state.

Accreditation

The Tennessee State Museum is an accredited member of the American Alliance of Museums (AAM) and adheres to AAM’s ethical and professional standards and practices.

The museum’s business unit code in Edison³ is 31627.

³ Edison, which is maintained by the Department of Finance and Administration’s Enterprise Resource Planning division, is the state’s integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

Revenues and Expenditures

Table 1
Tennessee State Museum
Budget and Actual Expenditures and Revenues, Fiscal Year 2018

Tennessee State Museum		FY 2018 Recommended Budget*	FY 2018 Actual Expenditures and Revenues**
Expenditures	Payroll	\$2,918,400	\$2,699,897
	Operational	1,354,200	1,605,708
	Total	\$4,267,600	\$4,305,605
Revenues	State	\$4,272,600	\$4,287,900
	Federal		
	Other	5,000	17,600
	Total	\$4,267,600	\$4,305,500

*Source: Tennessee State Budget, Fiscal Year 2017 – 2018.

**Source: Tennessee State Budget, Fiscal Year 2019 – 2020 (Actual Revenues) and State Audit Information Systems (Actual Expenditures).

Table 2
Tennessee State Museum
Budget and Actual Expenditures and Revenues, Fiscal Year 2019 Through January 31, 2019

Tennessee State Museum		FY 2019 Recommended Budget*	FY 2019 Actual Expenditures and Revenues**
Expenditures	Payroll	\$3,779,100	\$1,931,594
	Operational	3,834,300	1,881,049
	Total	\$7,613,400	\$3,812,643
Revenues	State	\$7,608,400	\$7,646,900
	Federal		
	Other	5,000	5,000
	Total	\$7,613,400	\$7,651,900

*Source: Tennessee State Budget, Fiscal Year 2018–2019.

**Source: Tennessee State Budget, Fiscal Year 2019–2020 (Estimated Revenues for fiscal year 2019) and State Audit Information Systems (Actual Expenditures through January 31, 2019).

Tennessee State Museum Foundation

The Tennessee State Museum Foundation is a private, nonprofit organization whose main purpose is to provide support to the Tennessee State Museum through fundraisers and donations.⁴ According to the foundation's bylaws, the foundation collects and maintains funds to support the museum's public functions and special projects, which included raising private dollars to supplement state appropriations to build the new museum. In support of these activities, the

⁴ As a private, nonprofit organization, the Tennessee State Museum Foundation is not subject to audit by the Tennessee Comptroller of the Treasury.

foundation solicits and receives donations; establishes fundraising projects; and accepts loans, bequests, and gifts of property. The foundation’s primary annual fundraiser is *A Tennessee Waltz*. The foundation’s income earned from the fundraiser and the dollars provided in direct museum support for fiscal years 2015 through 2018 is exhibited in **Table 3**.

Table 3
Tennessee State Museum’s Financial Benefit
From the Tennessee State Museum Foundation
Fiscal Years 2015 to 2018
(unaudited)

Fiscal Year	Income Earned From <i>A Tennessee Waltz</i>	Dollars Benefiting the Museum
2018	\$ 152,512	\$ 35,408
2017	140,528	30,512
2016	124,189	38,856
2015	117,937	38,506
Grand Total	\$ 535,166	\$ 143,282

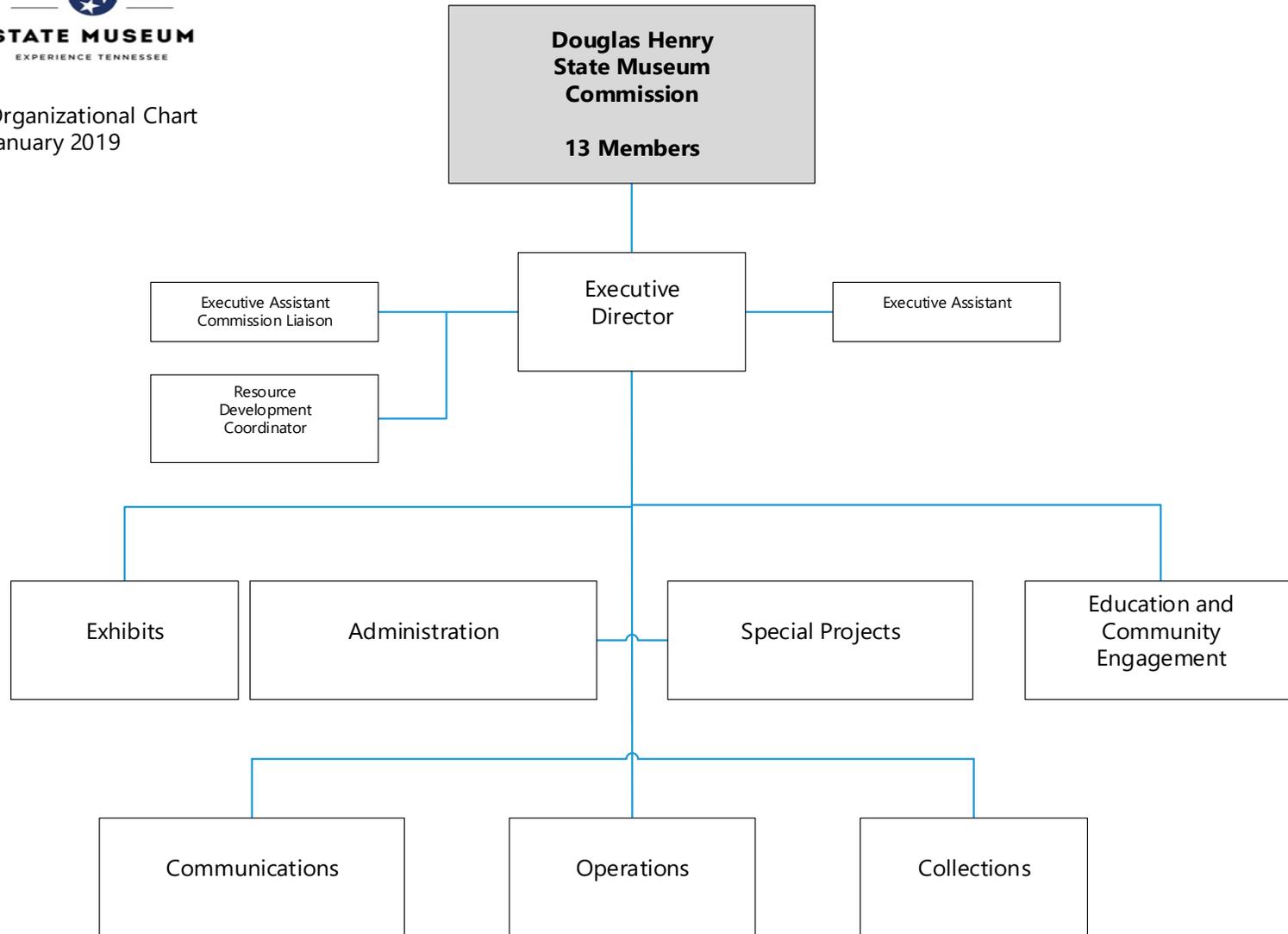
Source: Amounts determined by museum management.

According to the Executive Director, the foundation’s dollars benefiting the museum represent gross amounts. The amounts do not include the cost of museum employees’ time working on *A Tennessee Waltz* activities. In addition, the museum provides the foundation with free office space in the James K. Polk Building.

On April 3, 2019, Governor Bill Lee signed into law 2019 Public Chapter 81, which authorizes the museum’s Executive Director to directly solicit funds, including creating membership and sponsorship organizations and conducting annual giving campaigns. The museum must also report annual fundraising activities to the chairs of the Finance, Ways and Means committees.



Organizational Chart
January 2019



Source: Museum management.

AUDIT SCOPE

We have audited the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period July 1, 2017, through March 31, 2019. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, and procedures in the following areas:

- the commission's statutory obligations relating to membership qualifications, meeting frequency, member attendance and quorum, and conflicts of interest;
- the museum's inventory and collections process, including controls over the custody of the Tennessee State Museum Foundation's alcoholic beverage inventory;
- museum employee background checks and time and attendance;
- controls over the museum's information systems; and
- the museum's staffing levels and the impact of turnover on the museum's operations.

Commission and museum management are responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Although our sample results provide reasonable bases for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in the individual sections of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

REPORT OF ACTIONS TAKEN ON PRIOR AUDIT FINDINGS

Section 8-4-109(c), *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The prior audit report was dated September 2015 and contained seven findings. The Tennessee State Museum filed its report with the Comptroller of the Treasury on March 28, 2016. In 2017, we performed a limited review of three prior audit findings⁵ and released a letter in November 2017 reporting partial resolution of one prior audit finding related to management's hiring practices. We conducted a follow-up of all unresolved prior audit findings as part of the current audit.

RESOLVED AUDIT FINDINGS

September 2015 Audit Report

The current audit disclosed that Tennessee State Museum management resolved the previous audit finding concerning background check procedures and control deficiencies within its process to reconcile artifact purchase documentation to the artifact logbook entries.

November 2017 Letter

The review disclosed that museum management resolved the previous audit finding concerning its hiring practices.

REPEATED AUDIT FINDINGS

Repeated Findings

The 2015 prior audit report contained findings stating that Tennessee State Museum management

- had not developed and implemented adequate internal controls over employees' time and attendance;
- had not properly documented approvals and authentication information before acquiring items for its collection and had not always adhered to its own purchasing guidelines; and

⁵ During the 2017 limited review, museum personnel began preparing the museum's collection to move to the new museum building; in addition, the Douglas Henry State Museum Commission hired a new Executive Director, who expressed interest in reviewing the collections policies and procedures. Therefore, we did not follow up on the four findings relating to the museum's collection at that time.

- had not provided adequate internal controls in four specific areas.

The current audit disclosed that

- although museum management improved controls over employees' time and attendance, improvements are still needed;
- while museum management improved controls over acquisitions, the newly implemented control process was not always completed and did not always adhere to museum purchasing guidelines; and
- museum management did not provide adequate internal controls in two specific areas.

These findings are repeated in the applicable sections of this report.

Repeated Conditions

The 2015 prior audit report also contained findings stating that

- water problems within the James K. Polk Building posed a threat to the museum's artifacts that were on display or housed in storage; and
- museum management lacked internal controls to secure the Tennessee State Museum Foundation's alcoholic beverages that were stored on-site.

The current audit disclosed that water leaks continue to plague the museum collection storage areas in the James K. Polk Building, and control weaknesses over the foundation's alcoholic beverage inventory still exist. We have reported these continuing issues as observations in the applicable sections of this report.

AUDIT CONCLUSIONS

COMMISSION RESPONSIBILITIES

In 2009, the General Assembly transferred oversight of the Tennessee State Museum from the Tennessee Arts Commission to the Douglas Henry State Museum Commission. In accordance with Section 4-20-301, *Tennessee Code Annotated*, the commission consists of 13 voting members, 6 of whom must participate to constitute a quorum, in addition to 2 ex-officio, non-voting members. The commission members elect one of their own to serve as chair. While Section 4-20-302, *Tennessee Code Annotated*, prohibits commission members from receiving compensation for their services, this statute does permit reimbursement for "actual and necessary expenses incurred in the performance of their duties," such as reimbursement for travel expenses in accordance with statewide policy.

The commission drafted internal bylaws to address, in part, duties and authorities; meetings; and committees, including the establishment of the following two standing committees:

- the Nominating Committee, which annually proposes officers for the commission to elect, and
- the Audit Committee, which ensures that top management safeguards the museum's assets and adequately discloses financial information.

Along with the standing committees, the commission created the following ad-hoc committees:

- the Collections Acquisitions Committee to guide the acquisition, preservation, and availability of artifacts;
- the By-Laws/Communications Committee to consider amendments to the bylaws;
- the Best Practices Committee to prepare for and navigate through the current American Alliance of Museums reaccreditation process and develop best practices for doing business with the Tennessee State Museum Foundation; and
- the Carousel Committee to examine the future of Red Grooms' carousel.⁶

Audit Results

Audit Objective: Did the commission uphold its statutory responsibilities relating to membership qualifications; meeting frequency; member attendance and quorum; and conflicts of interest?

Conclusion: Based on the audit work performed, the commission upheld its statutory responsibilities.

Methodology to Achieve Objective

To gain an understanding of the commission's statutory responsibilities, we reviewed state statute and the commission's bylaws. We obtained the 2018 conflict-of-interest forms for all current members to determine if the commission obtained the forms and noted potential conflicts. We reviewed the commission members' backgrounds to determine if the members were qualified to sit on the commission. Furthermore, we obtained the minutes to the 2018 meetings to determine if the commission met as required, took attendance, and met the quorum requirement at each meeting.

⁶ A native of Nashville, Tennessee, Red Grooms is a multimedia artist whose work has been featured in galleries across the United States as well as in Europe and Japan. One of his works is the Tennessee Fox Trot Carousel.

INVENTORY

The Tennessee State Museum is responsible for storing, caring for, acquiring, researching, and interpreting objects,⁷ as well as for incoming and outgoing object and exhibit loans, contracts, and insurance. The museum's collection includes the social, political, economic, and cultural history of Tennessee, along with decorative and fine art created within or relating to the state. There are approximately 162,900 permanent objects in the museum's collection, including paintings, quilts, coverlets, silver, furniture, firearms, and fashion collections.

As a private, nonprofit organization, the Tennessee State Museum Foundation's main purpose is to provide support to the museum. According to the foundation's bylaws, the foundation also collects and maintains funds to support the museum's public functions and special projects. In support of these activities, the foundation

SIGNIFICANT EVENTS REPRESENTED IN THE MUSEUM'S COLLECTION

- Revolutionary War Battle of Kings Mountain
- The War of 1812
- Reconstruction
- Passage of the Nineteenth Amendment to the U.S Constitution, giving women the right to vote
- *State of Tennessee v. John Thomas Scopes*, a trial involving teaching human evolution in state-funded schools
- The Civil Rights Movement

SIGNIFICANT FIGURES REPRESENTED IN THE MUSEUM'S COLLECTION

- President Andrew Jackson
- Painter Ralph E. W. Earl
- President James K. Polk
- Frontiersman David Crockett
- Governor Sam Houston
- President Andrew Johnson
- General Nathan Bedford Forrest
- Admiral David Farragut
- Sergeant Alvin C. York
- Singer Elvis Presley
- Author Alex Haley
- Secretary of State Cordell Hull
- Vice President Albert Gore, Jr.

solicits and receives donations, establishes fundraising projects, and accepts loans, bequests, and property. The foundation's primary annual fundraiser is *A Tennessee Waltz*. The Tennessee State Museum Foundation finances the fundraiser, but the museum secures and prepares the location; arranges for food and refreshments, including alcoholic beverages; and, on behalf of the foundation, hires service staff to work the events. The foundation purchases alcoholic beverages for the event, and any unused bottles from the event are stored at the museum and are secured and maintained by museum staff.

Status of Corrective Action of Prior Audit Findings

We released our prior audit of the Douglas Henry State Museum Commission, including the Tennessee State Museum, in September 2015. The audit resulted in four findings related to inventory. The 2015 findings included the following conditions:

⁷ Objects are the items making up the museum's collection.

- museum management had implemented a process to reconcile purchase records to artifact inventory records;⁸ however, they had not properly segregated duties within the process;
- management and staff had not properly documented approvals and authentication information before acquiring items for the museum’s collection and had not always adhered to the purchasing guidelines outlined in the *Tennessee State Museum Collections Manual*;
- water problems in the James K. Polk Building posed a threat to the museum’s artifacts on display or housed in storage; and
- museum management lacked internal controls to ensure the security of the alcoholic beverages stored on-site.

In response to our audit findings, museum management took the following steps:

- implemented new procedures for reconciliations to ensure that all duties in the acquisition process were appropriately assigned;
- created a new internal control process to ensure all object files were complete and staff followed the appropriate acquisition process;
- worked with the Department of General Services to take steps to mitigate the risks of water damage to artifacts and museum locations;
- performed a comprehensive inventory of the alcohol stored at the museum;
- limited access to the alcohol inventory to two people; and
- limited alcohol service to *A Tennessee Waltz*.

Current Processes Governing Object Acquisitions and Accessions,⁹ Protection of Collections, and Alcohol Inventory

Object Acquisitions and Accessions

As part of its oversight function, the Douglas Henry State Museum Commission’s Collections Acquisitions Committee reviews and approves the *Tennessee State Museum Collections Manual*. The commission adopted the manual in 2012 and most recently amended it in 2016. The manual outlines proper procedures for both purchases and non-purchase acquisitions/donations of items for the museum’s collection. The manual states it is the “governing authority in regard to collections policies and procedures at the Tennessee State Museum.” Additionally, the commission approved the *Tennessee State Museum Collections Management Policy* in July 2018.

⁸ Management implemented this reconciliation process in direct response to an August 2014 report by the Comptroller’s Office’s Division of Investigations, which uncovered a fraudulent purchasing scheme. The scheme was not detected because management did not have a process in place to reconcile purchases to artifacts received.

⁹ Accessions is the process by which the museum brings items into the collection, either by purchase or by donation, to fully document the transaction.

In the prior audit, we reported that museum staff did not always properly document decisions and approvals related to acquisitions in accordance with the collections manual and, as a result, it was unclear whether they had complied with the museum's acquisition and accession process. In response to the prior audit finding, museum management and the commission implemented new control procedures that require the curators and Registrar to complete an Accession Cover Sheet, which is a checklist that documents each step in the process to acquire and accession an object into the collection. Museum management use the Accession Cover Sheet to ensure that staff follow all procedures and document the process in accordance with the collections manual.

Protection of Collection

In the September 2015 performance report, we recommended that management continue to work with the state's facilities management contractor to address water issues as they arise; additionally, we recommended that management take steps to ensure that all artifacts are adequately protected from damage, including updating the collections manual to address water damage. Museum management stated that they had completed a project to upgrade its alarm system "used for detecting water leaks within collections storage areas, adding additional alarm units covering more areas. In addition to the alarm units, security officers monitor for leaks in both gallery spaces [when the exhibit space was located in the James K. Polk Building] and collections storage areas." In 2017, we found that management installed the alarm units.

Alcoholic Beverages Inventory

Museum staff use a scannable barcode system to perform the inventory of the alcohol, which was performed prior to *A Tennessee Waltz* in 2018. Management provided inventory records with columns showing

- the quantity of alcohol based on brand and type on a certain date;

ACQUISITION AND ACCESSION PROCESS OVERVIEW

- A museum curator or other staff member recommends an object for purchase to the appropriate curator, the Director of Collections, or the museum's Executive Director; non-purchases/donations should be recommended to the appropriate curator.
- The curator or staff member completes a "Justification for Acquisition of Objects for the Tennessee State Museum" form.
- The museum's Collections Acquisitions Committee meets to approve the acquisition of the object.
- The item is purchased or, in the case of non-purchases/donations, paperwork is completed to transfer ownership.
- The pending file, containing all communication records and documentation, is given to the Registrar for accessioning.
- The Registrar creates an object file and accessions the item into the collection.
- In certain cases, particularly those in which an object's value exceeds monetary thresholds or presents challenges in maintenance, restoration, or storage, the collections manual requires additional approvals from the Executive Director or commission.

- the number of bottles pulled for an event;
- the number of bottles lost or opened during an event; and
- the number of bottles returned after the event.

Current Audit Results

During our current audit, we found the following:

- Museum management corrected the finding related to the segregation of duties in the process to reconcile purchases to artifact inventory records.
- Although museum management had improved the artifacts acquisitions process, we found that museum staff did not always follow the newly implemented control process for each acquisition and did not always adhere to the purchasing guidelines outlined in the *Tennessee State Museum Collections Manual*.
- We found that water leaks still exist in the James K. Polk Building, where the majority of the museum’s collection is stored. We also found water leaks in the War Memorial Building and in the new Tennessee State Museum building.
- We found that while the museum did perform an alcohol inventory, museum staff did not record alcohol purchases made by the foundation, and as a result, our counts of the inventory did not agree to the museum’s records.
- Museum management implemented policies and procedures over the alcohol storage and inventory during our audit period; however, internal control deficiencies still exist.

We discuss our audit results in further detail below.

Audit Results

1. Audit Objective: Did the commission ensure museum management corrected the prior-year finding by implementing appropriate segregation of duties in reconciliations of museum acquisitions?

Conclusion: Museum management implemented segregation of duties in their reconciliation process and added an additional review of the reconciliations.

2. Audit Objective: Did the commission ensure museum management developed and implemented procedures to ensure that all object files contained documentation of compliance with the acquisition requirements listed in the *Tennessee State Museum Collections Manual* and the *Tennessee State Museum Collections Management Policy*?

Conclusion: While museum management developed a process to review each object file to ensure staff included the appropriate documentation of the acquisition

process, we still found instances of noncompliance with the process. See **Finding 1**.

- 3. Audit Objective:** Did the commission ensure museum management corrected the prior finding by implementing procedures to ensure the artifacts were protected from water damage?

Conclusion: While museum management took steps to mitigate the risks of water damage to the museum's collection, leaks still exist in the museum's storage area in the James K. Polk Building. Additionally, we found water problems in both the War Memorial Military Museum and the new state museum facility. See **Observation 1**.

- 4. Audit Objective:** Did the commission ensure museum management corrected the prior finding by implementing procedures to secure the alcoholic beverages that are stored on-site?

Conclusion: Based on our audit work, museum management implemented policies and procedures over the alcohol storage and inventory process during the audit period. During fieldwork, however, museum management acknowledged that internal control deficiencies still exist; they were in the process of negotiating an agreement with the Tennessee State Museum Foundation that clearly defined the foundation's and the museum's roles, including fundraising efforts, which are the foundation's responsibility. As of April 8, 2019, both parties had not come to an agreement. See **Observation 2**.

Methodology to Achieve Objectives

To achieve our objectives, we interviewed museum management and staff involved in the purchase/artifact inventory reconciliation, acquisitions, and collections processes to gain an understanding of the internal controls in each area. We reviewed the museum's Quarterly Acquisitions Reports for our audit period of July 1, 2017, to December 31, 2018. We also reviewed examples of the Weekly Payment Report.

From a population of 258 items accessioned (recorded in the museum's logbook) during our audit period of July 1, 2017, through December 31, 2018, we selected a nonstatistical, random sample of 60 acquired items to test for compliance with the *Tennessee State Museum Collections Manual* and the *Tennessee State Museum Collections Management Policy*. We reviewed the object files for all items in our sample and verified their location in the museum or in storage.

We toured museum exhibit space and storage areas to gain an understanding of the museum's processes to protect its artifacts from water damage. Additionally, we obtained photographic evidence and observed water damage to museum storage and exhibit areas.

We observed and obtained photographic evidence of the alcoholic beverage storage areas in the museum's location in the James K. Polk Building. From a population of 154 brands and

types/flavors of alcoholic beverages¹⁰ listed on the museum’s 2018 inventory report, we selected a sample of 60 brands and counted the bottles in the storeroom to determine if the number of bottles on the shelf matched the number on the report. Furthermore, we reviewed the museum’s alcoholic beverage inventory process and any available documentation of the inventory completed by the museum.

Finding 1 – While we found that Tennessee State Museum management and staff have made improvements in demonstrating compliance with acquisitions policies and procedures, we still found instances of noncompliance with the museum’s collections manual and with the newly implemented internal control process

Collections Acquisitions Committee Requirements

For 4 of 19¹¹ purchases tested (21%), we found that the Collections Acquisitions Committee meetings occurred after the invoice date, which indicates that the object procurement process is expedited more often than on “rare occasions,” as stated in the *Tennessee State Museum Collections Manual*. The Registrar stated that Tennessee State Museum management discussed the four accessions prior to the actual purchases; however, management did not document this fact on the Justification for Acquisition of Objects for the Tennessee State Museum (justification) form. The justification form contains a section to document the details of the meeting of the Collections Acquisitions Committee; it also contains a space to document the date of the committee meeting and any other pertinent information, including signatures of the three staff members serving on the committee. The Registrar stated that the dates listed on the justification form indicated when the curator received all the required information, instead of the date the object was discussed. However, because the form clearly states “date of the committee meeting” and does not contain any additional information about other discussions or approvals prior to that date, we do not have any documentation to support this assertion.

The *Tennessee State Museum Collections Manual* states that any object recommended for purchase must be considered by a Collections Acquisitions Committee made up of at least three members. If the committee recommends the acquisition and the Director of Collections agrees, the object will be purchased. The manual also states that on rare occasions, and if absolutely necessary, on-the-spot purchases may occur; however, the committee must still review those purchases.

Accession Cover Sheets

Based on our testwork, we found that for 11 of 60 of museum acquisitions tested (18%), the object file did not include the Accession Cover Sheet.

¹⁰ For example, the museum’s inventory records list Jack Daniel’s Gentleman Jack whiskey, Jack Daniel’s Single Barrel Select whiskey, and Jack Daniel’s No. 7 Sour Mash whiskey on separate lines.

¹¹ The remainder of the 60 items tested were non-purchase acquisitions, such as donations or items found in storage that had not been accessioned.

The *Tennessee State Museum Collections Management Policy* states that all objects acquired through any means must have an Accession Cover Sheet, which is completed by the curator or staff member bringing the item into the collection and the Registrar or his or her designee.

We discussed the errors with the Registrar, the Assistant Registrar, and the Curatorial Assistant. According to the Registrar, he and staff were unaware that the Accession Cover Sheets were mandatory, and the errors were the result of this lack of understanding of the policy changes, working too quickly, and not paying close enough attention.

Effect

Proper documentation to support the acquisition of objects for the museum's collection ensures the integrity of acquisitions and protects the museum's reputation. Without proper documentation, management cannot ensure staff acquired legitimate objects, which increases the risk that the museum will purchase items that do not fulfill the museum's mission or are otherwise inappropriate for the museum.

Recommendation

The Douglas Henry State Museum Commission, in its oversight capacity, is responsible for ensuring that Tennessee State Museum management follows the museum's established and commission-approved collection acquisition processes to ensure the integrity and value of the objects acquired for the state's collection. The commission should work with museum management to ensure that management develops and implements appropriate corrective action to address the conditions noted in this finding.

The Executive Director and the Director of Collections should ensure that staff follow all purchase processes for every acquisition, as outlined in the *Tennessee State Museum Collections Manual* and the *Tennessee State Museum Collections Management Policy*. Additionally, the Executive Director and the Director of Collections should consider requiring additional documentation in the object files for the rare occasions in which it is necessary to make a purchase without going through the required acquisition processes. If a change to the manual is necessary to ensure proper documentation, the Executive Director and the Director of Collections should work with the commission to make the appropriate changes. Additionally, the Executive Director and the Director of Collections should consider providing curatorial staff additional training to address the importance of the Accession Cover Sheet in ensuring files are complete, as well as training on how to complete justification forms in order to document all pertinent information for each object. The Executive Director and the Director of Collections should also consider assigning an appropriate staff member to complete a final review and sign off on each Accession Cover Sheet to ensure that the curators and the Registrar completed each object file and carried out the process in accordance with the collections manual.

Management's Comment

The Tennessee State Museum management concurs with the Finding and Recommendations.

Accordingly, all staff will follow the approved purchase process for every acquisition, as outlined in the *Tennessee State Museum Collections Manual* and the *Tennessee State Museum Collections Management Policy*. Documented written justification, approved by the Executive Director, will be required in the object file for any instance which necessitated a purchase be made which did not follow the required acquisition processes.

Additionally, the Executive Director and the Director of Collections commit to providing all appropriate museum staff with additional collections management training and other tools to help assess and ensure our processes and performance are informed by and in alignment with standard museum best practices as set forth by the American Alliance of Museums (AAM).

Staff responsibilities will be reviewed and revised to ensure compliance with control changes. Individual responsibilities will be outlined and detailed within the Individual Performance Plans scheduled to commence October 1, 2019.

Should any changes be required to the Collections Manual, the Executive Director and the Director of Collections will work with the Douglas Henry State Museum Commission to make the appropriate changes.

Observation 1 – Water leaks continue to threaten objects in the Tennessee State Museum’s collection that are on display or housed in storage

Since the new Tennessee State Museum opened in October 2018, the Douglas Henry State Museum Commission houses its museum collection, either on exhibit or in storage, in three separate buildings in Nashville:

- the James K. Polk Building, used for artifact storage;
- the War Memorial Building, used for exhibit space; and
- the new state museum on Rosa Parks Boulevard, used for exhibit space.

Based on discussion with museum management and visual evidence, management continuously works to safeguard the collection from water leaks.

Current Audit Results

James K. Polk Building

Of the 162,900 artifacts in the museum’s collection, 156,460 (96%) of them are housed in storage on three underground floor level areas in the James K. Polk Building, which experiences constant water leak issues.

During our walkthroughs, we observed the alarm units management installed to detect water gathering on the floors; however, according to the Director of Collections, the units have to be placed where water gathers. As a result, if leaks occur in areas in which they have not occurred

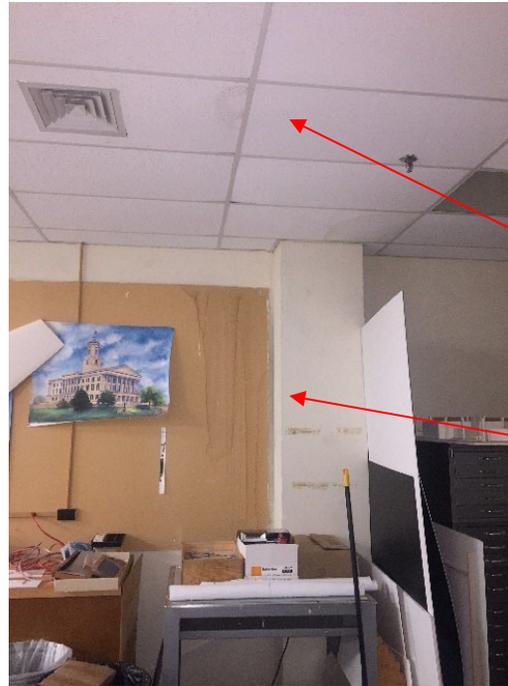
previously, any new leaks may not be detected timely. The museum also uses devices to monitor temperature and humidity levels in the storage areas, but the devices cannot regulate the temperature consistently because of constant spikes in the temperature in these locations.

During the walkthroughs, we observed a sump pump that facilities management uses to pull the excess water coming from a drain in the museum's loading dock area so it can re-route the water to another drainage area. However, we also observed active water leaks coming through the ceiling of the storage and office areas from the floors occupied by the Tennessee Performance Arts Center, causing damage to the ceiling, carpet, and walls. Furthermore, we observed possible mold issues. Our photographs of the damage observed are exhibited as follows.

James K. Polk Building
Level A Storage Area



A bucket on a table catching dripping water.



A wet ceiling tile with drip marks on the wall.



Water accumulating on the floor.



A wet, broken ceiling tile.

James K. Polk Building
Level B Office Space



Water leaks are causing office ceiling damage.

James K. Polk Building
Possible Mold



Possible mold on ceiling tiles.

War Memorial Building

Although the prior audit finding did not include the museum's War Memorial Building location, we toured this location to determine if it also experienced water issues. Based on discussion with museum staff, this location experienced damage from water that came through the front door. Our photographs of the damage we observed are exhibited on the next page.



Water damage on the carpet along the wall.



Water damage on ceiling tiles.



Water marks visible on a portrait reproduction on exhibit.

New Tennessee State Museum Building

During the audit, we met with the Department of General Services' (DGS) management to discuss the water leaks found at the new \$160 million state museum building. The building is under warranty for 1 year, and the roof is under warranty for 30 years. According to DGS management, from October 2018 to early February 2019, they found six leaks and repaired them. On February 6, 2019, approximately six inches of rain fell in the downtown Nashville area. On February 7, staff found two more leaks—one in an electrical closet and one in the exhibition area. DGS management stated that no artifacts were damaged; based on discussions with museum management, staff moved the artifacts to prevent damage and put down buckets to catch the falling water. Our photographs of the damage we observed are exhibited below. According to the Executive Director, a new leak was discovered in early March 2019. The Executive Director stated at our field exit conference on May 6, 2019, that no new leaks occurred after March 10, 2019.



Risk

Although museum management took steps to deploy adequate physical safeguards to protect artifacts from water damage, the risk remains that artifacts will suffer irreparable damage, causing not only an increase in the museum's restoration costs but also a loss of Tennessee's cultural history.

Management's Remarks

The Tennessee State Museum management concurs with the Observation.

Museum management continues to work with the Department of General Services and their contracted providers on water issues. A collections storage facility is in the planning stage to move the State Museum's collection from the Polk building. Additionally, museum management is revising Military Branch Museum displays to mitigate water and humidity issues in that space until a large-scale War Memorial renovation is underway.

Observation 2 – Tennessee State Museum management lacked internal controls over the inventory of the alcoholic beverages stored on-site¹²

The private, nonprofit Tennessee State Museum Foundation is responsible for financing the purchases of alcohol used at the fundraiser *A Tennessee Waltz*. Despite this, the foundation has left the responsibility to the Tennessee State Museum to maintain the inventory records and store the inventory. Based on museum management’s calculation, the assessed value of the wine and liquor inventory stored at the museum is approximately \$31,600. To protect the alcohol, the museum’s Deputy Director and Director of Operations are the only staff assigned keys to access the area where the alcoholic beverages are stored; they both stated that alcohol inventory is only used for *A Tennessee Waltz*.

Current Audit Results

Inventory Count

During the audit, we noted that although museum management performed a count of the existing inventory in 2018, we found discrepancies in the museum’s inventory records compared to our own inventory counts.

Based on our testwork, we found that for 5 of 60 bottles (8%), the number of bottles listed on the inventory records did not match our physical count. For 4 additional items, count information under some columns on the museum’s inventory records was missing; therefore, we could not determine how many bottles should have been on the shelf.



Alcohol storage room in the James K. Polk Building.

¹² Audit staff took the photographs exhibited in this observation.

Inventory Policies and Procedures

After testing the inventory counts, we discussed the inventory process with the Deputy Director and the Director of Operations. In response to the prior audit finding, management implemented policies and procedures for the alcohol inventory. The Deputy Director provided the policies and procedures, which were revised several times; however, she and the Director of Operations acknowledged that internal control deficiencies still exist in the process. The Deputy



Alcohol storage room in the James K. Polk Building.

Director and the Director of Operations stated that the Douglas Henry State Museum Commission and the museum were in the process of restructuring their relationship with the Tennessee State Museum Foundation. Museum management prefers that the foundation assume responsibility for its alcohol and move the inventory off state property; they are in the process of requesting that the foundation remove the supply from the museum and hire a vendor to serve alcohol at events.

In the event that management does not reach an agreement with the foundation, the Director of Operations stated that if the museum still has responsibility for the alcohol past the 2019 *A Tennessee Waltz*, then management will develop more detailed policies and procedures with strict controls. *A Tennessee Waltz* was last held on April 27, 2019.

Risk and Recommendation

Failure to establish essential internal controls and maintain adequate inventory records over sensitive items, such as alcoholic beverages, increases the risk that theft and concealment of theft could occur and not be detected.

We recommend that the Douglas Henry State Museum Commission return all alcoholic beverages it stores on-site to the Tennessee State Museum Foundation and cease responsibility for maintaining any inventory purchased by the foundation.

Management's Remarks

The Tennessee State Museum management concurs with the Observation.

The Tennessee State Museum will notify the Tennessee State Museum Foundation to remove all alcoholic beverages on-site to be stored by the Tennessee State Museum Foundation off of state property. The Tennessee State Museum will cease responsibility for inventory management for the Tennessee State Museum Foundation.

HUMAN RESOURCES

Memorandum of Understanding With the Department of Human Resources

Effective February 2, 2015, the Tennessee State Museum's Executive Director entered into a Memorandum of Understanding to transfer the majority of the museum's human resources functions to the Tennessee Department of Human Resources (DOHR). This memorandum states that DOHR will provide

- consultation on compensation and classification issues;
- services for obtaining qualified applicants;
- onboarding services;
- learning, development, and required trainings;
- technical services; and
- employee relations consultation.

Museum management and its employees are still responsible for using Edison to report their time and leave requests as well as for performance management responsibilities, including evaluations and training.

Status of Corrective Action of Prior Audit Findings

We released our prior audit report of the Douglas Henry State Museum Commission, including the Tennessee State Museum, in September 2015. The audit resulted in two findings related to payroll and human resources. We found that museum management

- had not fully implemented background checks for new employees;
- hired an employee that did not meet established job requirements due to questionable hiring practices; and
- had not established internal controls over time and attendance, and as a result, we could not determine if museum employees were properly accounting for their hours.

In response to the prior audit findings, the museum implemented the following corrective action beginning in November 2016:

- Employees are required to enter their own time in Edison and are no longer required to maintain paper timesheets. Edison serves as the official time record.
- The museum's Human Resources Administrative Assistant 2 (ASA 2), who was responsible for time and attendance during the prior audit, no longer carries out the time entry and approval functions.
- Museum management do not permit employees to telework regularly.

In January 2017, we performed a limited review of the museum to determine the status of management's corrective action related to four of the seven 2015 audit findings, which included the payroll and human resources findings. Based on our work, we found that management corrected the portion of the finding related to hiring practices; however, we found that management had not corrected the findings related to background checks or internal controls over time and attendance.

Audit Results

1. Audit Objective: Did the commission ensure that museum management corrected the prior finding by performing background checks on all staff whose job duties involve museum collections or fiscal responsibilities?

Conclusion: Based on our testwork, museum management corrected the prior audit finding by performing background checks on all new hires.

2. Audit Objective: Did the commission ensure that museum management corrected the prior finding by implementing procedures to ensure accurate reporting in Edison for employee time and attendance?

Conclusion: Based on our testwork, while museum management has made improvements, problems still exist with time entry in Edison. See **Finding 2**.

Methodologies to Achieve Objectives

To meet our objectives, we reviewed Tennessee Department of Human Resources job descriptions and museum policies and procedures. We discussed hiring processes, particularly those concerning background checks, as well as time and attendance procedures with museum management. We also performed testwork on the entire population of 28 museum employees hired during the period November 1, 2017, through December 31, 2018, to determine if management performed background checks on new hires.

Based on discussions with museum management and because our concerns involved time entries for part-time employees, we obtained a list of 61 daily time entries¹³ for those part-time employees whose time the ASA 2 entered into Edison during the period July 1, 2017, through December 31, 2018. We tested the entries to ensure that the ASA 2 entered the data in Edison accurately from the paper timesheets maintained by the part-time employees and approved by their supervisors.

¹³ The daily time entries are individual days for which the ASA 2 entered time in Edison on behalf of the employee. Depending on the employee's schedule, he or she may have had one or more daily time entries in the same week. The paper timesheets were completed for each pay period, the 1st through the 15th of the month and the 15th through the end of the month.

Finding 2 – While Tennessee State Museum management has made improvements in internal controls over time and attendance, we found continued noncompliance with the museum’s timesheet process and data entry errors, resulting in minor payroll overpayments

Background

Tennessee State Museum Time Reporting Process

At the end of each pay period, Tennessee State Museum employees, including part-time employees, must submit their hours worked in Edison, the state’s accounting system. The employee’s supervisor reviews the time to ensure it is accurate and approves the time in Edison. The Edison timesheet is also approved by the Director of Operations or the Deputy Director/Director of Administration (Deputy Director).

In response to the prior audit finding, management required full-time museum employees to enter their time into Edison. As a result, management discontinued the practice of keeping paper timesheets for full-time employees. The Deputy Director stated that management continued to require paper timesheets for part-time employees because their schedules change, and management felt it was an important control to ensure accurate time entry for the part-time employees.

In some cases, part-time employees are not available to enter their own time by the deadlines established by the Tennessee Department of Human Resources. In these cases, the museum’s Human Resources Administrative Assistant 2 (ASA 2) enters the employees’ time from their paper timesheets, which the employees’ supervisors have reviewed and approved.

Tennessee State Museum Store

When the museum was located in the James K. Polk Building, the Tennessee State Museum Foundation operated and staffed the museum store. When the museum moved to the new facility in October 2018, museum management took over operations of the museum store, and the museum’s part-time employees referenced in this finding work in the museum store.

Audit Results

Missing Timesheet

For 1 of 61 daily time entries tested (2%), the ASA 2 did not obtain the part-time employee’s timesheet as support for entering time into Edison. Based on discussion with the ASA 2, she called the employee to verify her time before keying the time in Edison.

Based on discussion with the Deputy Director, management requires part-time employees to maintain timesheets; however, the employee did not submit a paper timesheet for the date in question and the ASA 2 called the employee rather than obtaining the official paper timesheet as the basis for the Edison time entry. As such, we could not evaluate the documentation and cannot assess the accuracy of the official time record without evidence.

Data Entry Errors

For 8 of 60 Edison daily time entries tested (13%), the ASA 2 entered the hours from the paper timesheets incorrectly, resulting in minor overpayments totaling \$59 to 3 part-time museum staff.¹⁴ Supervisors and management did not detect these errors during the time approval process because museum management has not implemented a reconciliation review process to ensure the part-time employees' paper timesheets support the daily time entries in Edison.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* is considered best practice for internal control standards for governmental entities. Principle 10.03 states, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system." Specifically, with respect to accurate and timely recording of transactions, it states that "management designs control activities so that all transactions are completely and accurately recorded."

The Deputy Director stated that part-time employees' supervisors review and approve their paper timesheet before the employee or the ASA 2 enters the information in Edison. She stated that if the time entered appears to be reasonable, ordinary, and necessary for the department's operation and the job function, the supervisor does not perform a second review to compare the timesheet to the time keyed when he or she approves the time in Edison. Additionally, once the supervisor approves the time in Edison, the Director of Operations and the Deputy Director would only note any hours that appear to be an abuse of overtime or abnormal hours for the position. Because of this, the time entry errors were not, and could not be, detected by the current review and approval process.

When supervisors do not review part-time employees' Edison time in comparison to their paper timesheet, the risk that overpayments will occur due to error or fraudulent time reporting increases, and supervisors may fail to detect missing timesheets. Additionally, when part-time employees do not complete and submit their timesheets, it increases the risk that their time will be reported incorrectly.

Recommendation

The Douglas Henry State Museum Commission should work with museum management in its oversight role to ensure that management implements internal controls over employee time and attendance to correct all conditions noted in this finding. The commission should determine what, if any, additional internal controls are needed to monitor museum management's time and attendance processes.

Museum management should revise their current review and approval processes for part-time employees to ensure that the time entered in Edison is accurate and reconciles to the employee's paper timesheet, regardless of who enters the time.

¹⁴ The population of timesheets tested included multiple timesheets for each employee.

Management's Comment

The Tennessee State Museum management concurs with the Finding and Recommendation.

Accordingly, all employees will routinely enter their own time into Edison. Museum management will also revise the review and approval process for all employees to ensure that time entered in Edison is accurate.

INFORMATION SYSTEMS

The Tennessee State Museum uses two main information systems—Edison, the state's accounting system; and Argus, the museum's collections system—for its daily operations:

- Edison – In 2008, management and staff began using Edison to account for business activities and functions related to payroll and human resources. In 2009, management began using Edison for fiscal activities and functions. The Department of Finance and Administration is responsible for Edison, and museum personnel coordinate with the Department of Human Resources to resolve access and other technical issues.
- Argus – Initially implemented in 1993 and purchased from a non-state vendor, Argus serves as the museum's collections management system. The museum hired a Business Tech Support employee in August 2018 to perform information technology duties. He and the museum's Assistant Registrar oversee Argus application controls.

Audit Results

Audit Objective: Did museum management follow state information systems security policies and industry best practices regarding system controls?

Conclusion: Based on the procedures performed, the museum management did not properly follow state information systems security policies and industry best practices. See **Finding 3**.

Methodology to Achieve Objective

To gain an understanding of their information systems controls, we interviewed museum staff and reviewed applicable guidelines. Through testwork, we compared management's internal control activities to assess adherence to state information systems security policies and information systems industry best practices.

Finding 3 – The Tennessee State Museum did not properly follow industry best practices governing information systems controls, resulting in control deficiencies in two specific areas

The Tennessee State Museum did not properly design and monitor internal controls in two specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided management with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Museum management should ensure that these conditions are remedied by promptly developing and consistently implementing internal controls in these areas. Museum management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management’s Comment

The Tennessee State Museum management concurs with the Finding and Recommendations and is moving forward to address deficiencies.

STAFFING LEVELS AND EMPLOYEE TURNOVER

The Tennessee State Museum has 60 approved full-time positions according to the state’s fiscal year 2020 budget. The museum’s positions increased from 42 employees in 2017 to 48 with 6 new positions for 2018. The state approved an additional 12 positions in 2019 to accommodate the staffing needs for the new museum.

Audit Results

Audit Objective: Has staffing turnover created problems with museum operations or the commission and museum management’s ability to meet the museum’s mission?

Conclusion: Based on our analysis of the museum’s staffing levels from January 1, 2017, through December 31, 2018, the museum experienced 11% turnover (an average of 5.5 individuals), mostly due to retirement. Based on the work performed during fieldwork, we did not find evidence that staff turnover resulted in problems with museum operations or impeded the museum’s ability to meet its mission. According to the Executive Director, she saw the turnover as an opportunity to realign the museum’s organizational structure to better suit the needs of the new building.

Methodology to Achieve Objective

To achieve our objective, we used Edison to obtain a list of museum employees on staff from January 1, 2017, through December 31, 2018. Using computer-assisted auditing techniques, we isolated the number of staff members employed during this period by calendar year and then identified the staff with employment end dates, calculating an annual average turnover rate. We also discussed turnover with the Executive Director to determine its impact on the museum's mission.