STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE REHABILITATIVE INITIATIVE IN CORRECTION BOARD

Performance Audit Report

October 2017

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Photo Credit: TRICOR management (pages 15, 16, and 33)

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October 2, 2017

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Speaker of the House of Representatives
The Honorable Mike Bell, Chair
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House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Greg York, Chairman, Tennessee Rehabilitative Initiative in Correction Board
Marvin Windows and Doors of Tennessee
101 Marvin Road
Ripley, TN 38063
and
Mr. David Hart, Chief Executive Officer
Tennessee Rehabilitative Initiative in Correction
6185 Cockrill Bend Circle
Nashville, Tennessee 37209

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) for the period June 1, 2015, through June 30, 2017. 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. TRICOR management has 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 TRICOR should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/jw
17/287

Division of State Audit

Tennessee Rehabilitative Initiative in Correction Board Performance Audit October 2017

Our mission is to make government work better.

AUDIT HIGHLIGHTS

TRICOR's mission is to prepare offenders for success after release.

We have audited the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) for the period June 1, 2015, through June 30, 2017. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

- offender programs, including the administration of offender payroll;
- state cost savings;
- the Tennessee Cook Chill Program closure;
- TRICOR's financial and administrative operations, including accounting, information systems, and contract administration;
- agriculture and dairy operations; and
- management's annual risk assessment.

Scheduled Termination Date:
June 30, 2018

KEY CONCLUSIONS

Key Changes

- New Chief Executive Officer
- New Controller
- New Internal Auditor
- More board involvement in TRICOR operations
- First financial statement audit

Findings

- While TRICOR management has begun implementing corrective action since the previous audit report, controls over fiscal operations and financial reporting still require additional improvements (page 25).

- TRICOR management did not provide adequate controls in three specific areas (page 28).

- Management's controls over monitoring raw material contracts need improvement (page 32).

- Farm management did not follow TRICOR policy and industry best practices regarding the documentation and analysis of agricultural operations, limiting management's ability to effectively manage its farming operations (page 35).

Observation

The following topic is included in this report because of its effect on the operations of TRICOR and the citizens of Tennessee: continued losses for the dairy operation at the Bledsoe County Correctional Complex warrant management's continued attention and consideration (page 39).

Performance Audit
Tennessee Rehabilitative Initiative in Correction Board

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Audit Authority	1
Background	1
AUDIT SCOPE	13
PRIOR AUDIT FINDINGS	13
Report of Actions Taken on Prior Audit Findings	13
Resolved and Partially Repeated Audit Findings	14
AUDIT CONCLUSIONS	14
Offender Programs	14
State Cost Avoidance	17
Tennessee Cook Chill Program Closure	20
Financial Operations	22
Finding 1 – While TRICOR management has begun implementing corrective action since the previous audit report, controls over fiscal operations and financial reporting still require additional improvements	25
Finding 2 – TRICOR management did not provide adequate controls in three specific areas	28
Contract Administration	29
Finding 3 – Management's controls over monitoring raw material contracts need improvement	32
Agriculture Operations	33
Finding 4 – Farm management did not follow TRICOR policy and industry best practices regarding the documentation and analysis of agricultural operations, limiting management's ability to effectively manage its farming operations	35

TABLE OF CONTENTS (CONTINUED)

		Page
Dairy Operations		37
Observation 1 –	Continued losses for the dairy operation at the Bledsoe County Correctional Complex warrant management's continued attention and consideration	39
Management's Annual Risk Assessment		40

Performance Audit
Tennessee Rehabilitative Initiative in Correction Board

INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-239, TRICOR is scheduled to terminate June 30, 2018. 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 TRICOR should be continued, restructured, or terminated.

BACKGROUND

TRICOR was created in 1994 by the Tennessee General Assembly to provide occupational and life skills training for Tennessee's incarcerated population through job training, program opportunities, and transitional services designed to assist offenders with successful reintegration into society. TRICOR's philosophy is to effectively manage revenue-supported industry, agriculture, and service operations for the purposes of employing and training offenders; providing quality products and services; and assisting in transitional services, all of which reduce the cost of government. Pursuant to Section 41-22-414, *Tennessee Code Annotated,* "It is the intent of the general assembly . . . that TRICOR has as a part of its mission to offset the costs of incarceration by generating revenue through the sale of products in lieu of state appropriated funds." The agency's organizational structure is described on the following pages.

TRICOR's organizational charts begin on page 9.

TRICOR BOARD OF DIRECTORS

Board Composition

A nine-member board of directors appointed by the Governor oversees TRICOR. Pursuant to Section 41-22-405, the Governor is required to appoint

- at least one member with eminence in the field of manufacturing;
- at least one member with eminence in the field of labor;
- at least one member with eminence in the field of agriculture;

- at least one member with eminence in fiscal management;
- an attorney with a strong background in business or corporate law;
- the Executive Director of the Tennessee State Employees Association;
- the remaining members to include persons with professional experience appropriate for assisting in carrying out TRICOR's mission, in disciplines such as sales, marketing, and human resources; and
- the Commissioner of the Tennessee Department of Correction (or his designee), who will only vote if the board's vote results in a tie.

Pursuant to Section 41-22-406, *Tennessee Code Annotated*, "the board has such powers as are necessary to effectively carry out its mission. . . . It is the intent of the general assembly that the board should be as free as is possible to operate its facilities and to pursue its mission with the principles of free enterprise." Furthermore, Section 41-22-408 states,

> The board has the duty to monitor TRICOR's operation and management and to impose such limitations as are prudent and necessary to assure that freedoms and powers are not abused. . . . The board shall assist TRICOR in maintaining the quality of management processes and reporting, providing for the adequacy of financial and accounting control systems and serving as a communications channel between TRICOR managers and auditors.

According to Section 41-22-407, the TRICOR board may employ an Executive Director who serves at the board's pleasure. The board, through its Executive Director, may employ professionals and staff to manage and operate TRICOR.

Board Committees

The board has four standing committees:

1. finance, management, and strategic planning;
2. government affairs;
3. human resources; and
4. audit.

TRICOR EXECUTIVE MANAGEMENT

Hired by the board, the **Chief Executive Officer** is ultimately responsible for overseeing TRICOR's daily operations, as well as reporting on the status of TRICOR's operations to the board of directors. The Chief Executive Officer also manages six key executive employees:

- The **Chief Business Officer** is responsible for overseeing the Purchasing and Information Technology divisions.

  At the end of calendar year 2015, TRICOR transferred all financial accounting and reporting duties to the Department of Finance and Administration (F&A). At that time, TRICOR's accounting staff became F&A employees. The Chief Business Officer, however, is still responsible for providing up-to-date financial information to the board.

TRICOR's Executive Leadership Team

- Chief Executive Officer
- Chief Business Officer
- Chief Customer Officer
- Chief Operations Office
- Chief People Officer
- General Counsel
- Director of Communications and Marketing

- The **Chief Customer Officer** is responsible for customer support, program managers, and TRICOR's marketing efforts. The Chief Customer Officer is also responsible for establishing and attaining annual sales targets, establishing strategic business relations, and providing ideas for all strategic sales plans and their implementation. The Customer Support section is responsible for sales activities and customer relations.
- The **Chief Operations Officer** is responsible for the business and offender programs, which encompass the business lines that utilize offender labor and provide training, life skills education, and transitional services to offenders to prepare them for employment upon release. The Chief Operations Officer is also responsible for overseeing TRICOR's community outreach efforts.
- The **Chief People Officer** heads the human resources and learning and development areas. The Chief People Officer is also involved with career planning for TRICOR employees.
- The **General Counsel** handles TRICOR's legal matters, including, but not limited to, human resource-related legal concerns; contracts; and offender grievances and lawsuits. In addition, the General Counsel assists with drafting contracts with private-sector partners; serves as TRICOR's legislative liaison; interprets laws and legislation affecting TRICOR; and represents TRICOR as needed.
- The **Director of Communications and Marketing** manages all internal and external communications, including TRICOR's website, social media, and sales materials. The director also assists with TRICOR's marketing efforts, as well as efforts to gain legislative support for TRICOR (although the director does not serve as the legislative liaison).

In addition to the executive team, management hired TRICOR's first **Internal Auditor** in July 2016. The Internal Auditor reports directly to the chair of the Audit Committee, although TRICOR's Chief Executive Officer is responsible for the Internal Auditor's performance evaluations and salary.

TRICOR OFFENDER PROGRAMS

TRICOR annually provides 1.5 million hours of training to 1,629 offenders to prepare them for employment upon their release. TRICOR also provides life skills education and transition services to further contribute to each offender's reintegration into the community. Pursuant to Sections 41-22-116 and 41-22-119, *Tennessee Code Annotated,* TRICOR may sell its products to governmental agencies (including state, county, and municipal governments); Tennessee nonprofit corporations; and private contractors in Tennessee who purchase goods for subsequent use by a public agency or a nonprofit corporation. TRICOR provides a variety of goods and services at various Tennessee Department of Correction facilities (see page 5). See page 14 for more information regarding TRICOR's offender programs.

TRICOR's Operating Locations and Total Number of Offenders Employed[1] From June 1, 2015, Through June 30, 2017

Bledsoe Correctional Complex Pikeville, TN	**Tennessee Cook Chill** **(Closed September 2016)**
Flooring (PIECP) (409 offenders)	Nashville, TN
Agriculture and Dairy Farm (64 offenders)	Food Manufacturing and Dairy Processing (106 offenders)
Corporate Office	**Tennessee Correction Academy**[2]
Nashville, TN	Tullahoma, TN
Administrative Support Services (14 offenders)	Uniform Distribution and Warehouse (0 offenders)
Mark Luttrell Correctional Center	**Tennessee Prison for Women**
Memphis, TN	Nashville, TN
Packaging Services (joint venture) (63 offenders)	Call Center (joint venture) (114 offenders)
Morgan County Correctional Complex	**TRICOR Logistics Center**
Wartburg, TN	Nashville, TN
Apparel and Textiles Manufacturing (136 offenders)	Warehouse, Transportation, and Fulfillment Services (17 offenders)
	Vehicle and Novelty Plate Manufacturing (20 offenders)
Northeast Correctional Complex	
Mountain City, TN	**Turney Center Industrial Complex**
Flooring (PIECP) (192 offenders)	Only, TN
	Flooring (PIECP) (278 offenders)
Northwest Correctional Complex	Building Trades Program (88 offenders)
Tiptonville, TN	Industrial Cleaning Products (14 offenders)
Packaging Services (joint venture) (111 offenders)	
	West Tennessee State Penitentiary
Riverbend Maximum Security Institution	Henning, TN
Nashville, TN	Apparel and Textiles Manufacturing (102 offenders)
Data Entry Services (30 offenders)	Agriculture – Row Crops (22 offenders)
South Central Correctional Facility	
Clifton, TN	
Printing (36 offenders)	

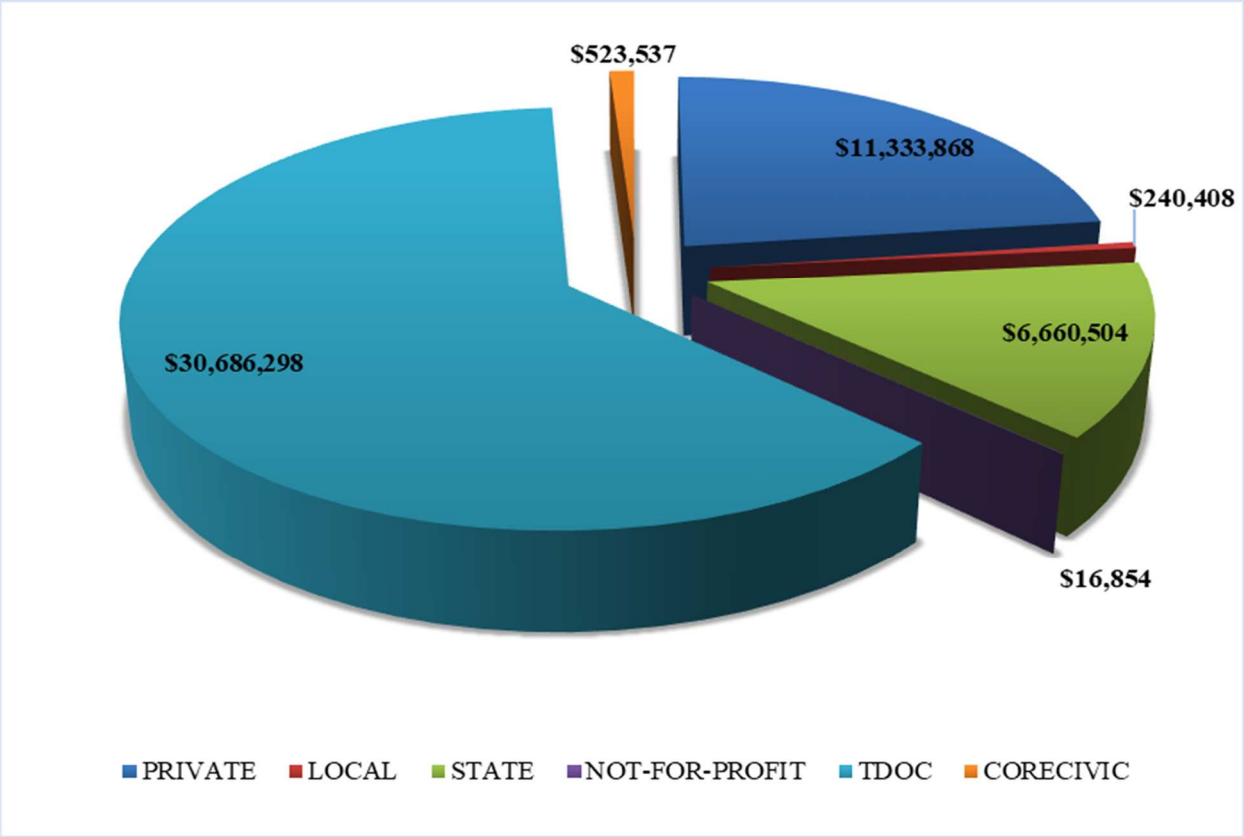
[1] We compiled the total offenders in each business line using TRICOR offender payroll records for fiscal year 2016. Some offenders worked in multiple business lines throughout the year and were counted in the total for each business line. TRICOR engaged approximately 1,760 unique offenders in work activities during fiscal year 2016.

[2] Based on our review of TRICOR offender payroll records for fiscal year 2016, offenders did not engage in work activities at the Tennessee Correction Academy.

REVENUE SOURCES BY FISCAL YEAR

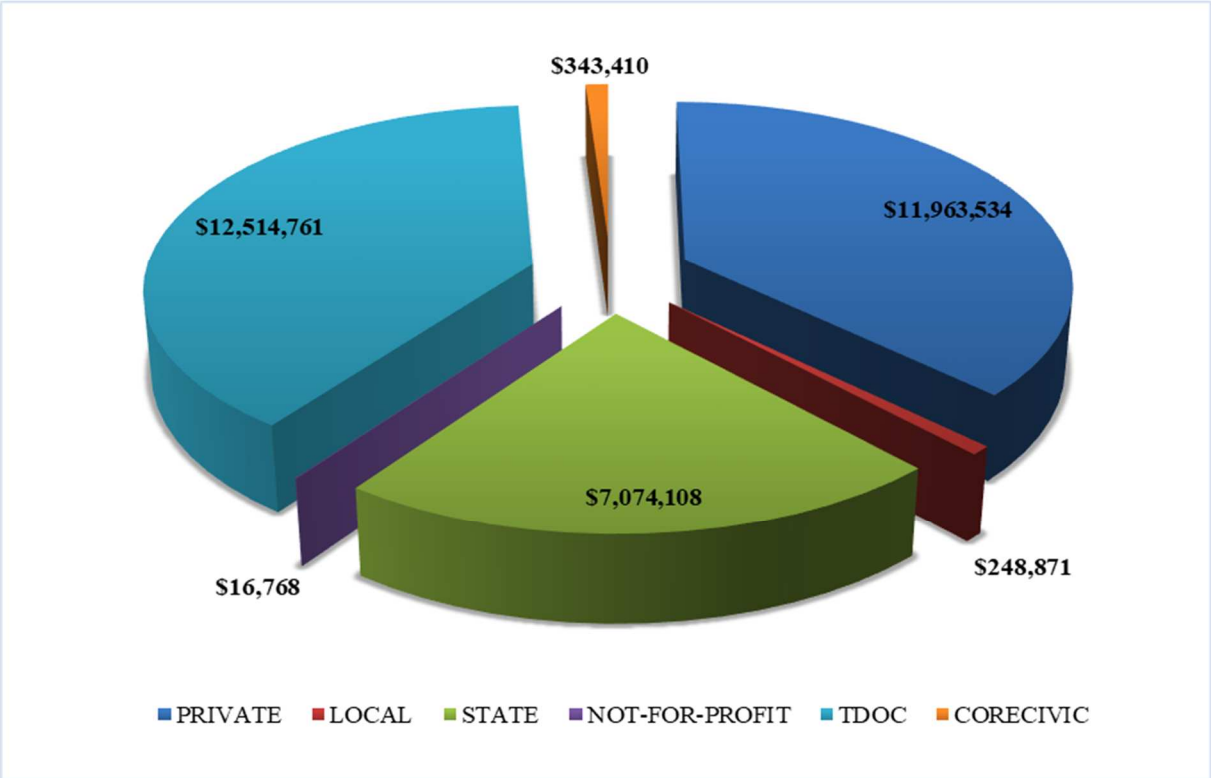
In order to fulfill its mission, TRICOR engages in public and private partnerships to generate revenue. In fiscal years 2016 and 2017, TRICOR generated a total of $49,461,469 and $32,161,453, respectively. The reduction in revenues was due to the closure of the Tennessee Cook Chill program (see page 20). The revenue sources by customer type for fiscal years 2016 and 2017 are exhibited in Tables 1 and 2; for fiscal year 2017, 61.6% of TRICOR's revenue came from government customers, and 38.4% came from the private sector.

Table 1
Fiscal Year 2016 Revenue Sources[3]
(unaudited)



[3] CoreCivic is the state's private prison contractor, formerly known as Corrections Corporation of America. TDOC is the Tennessee Department of Correction.

Table 2
Fiscal Year 2017 Revenue Sources
(unaudited)



Source: TRICOR Integrated Management System, total invoices dated July 1, 2015, through June 30, 2017.

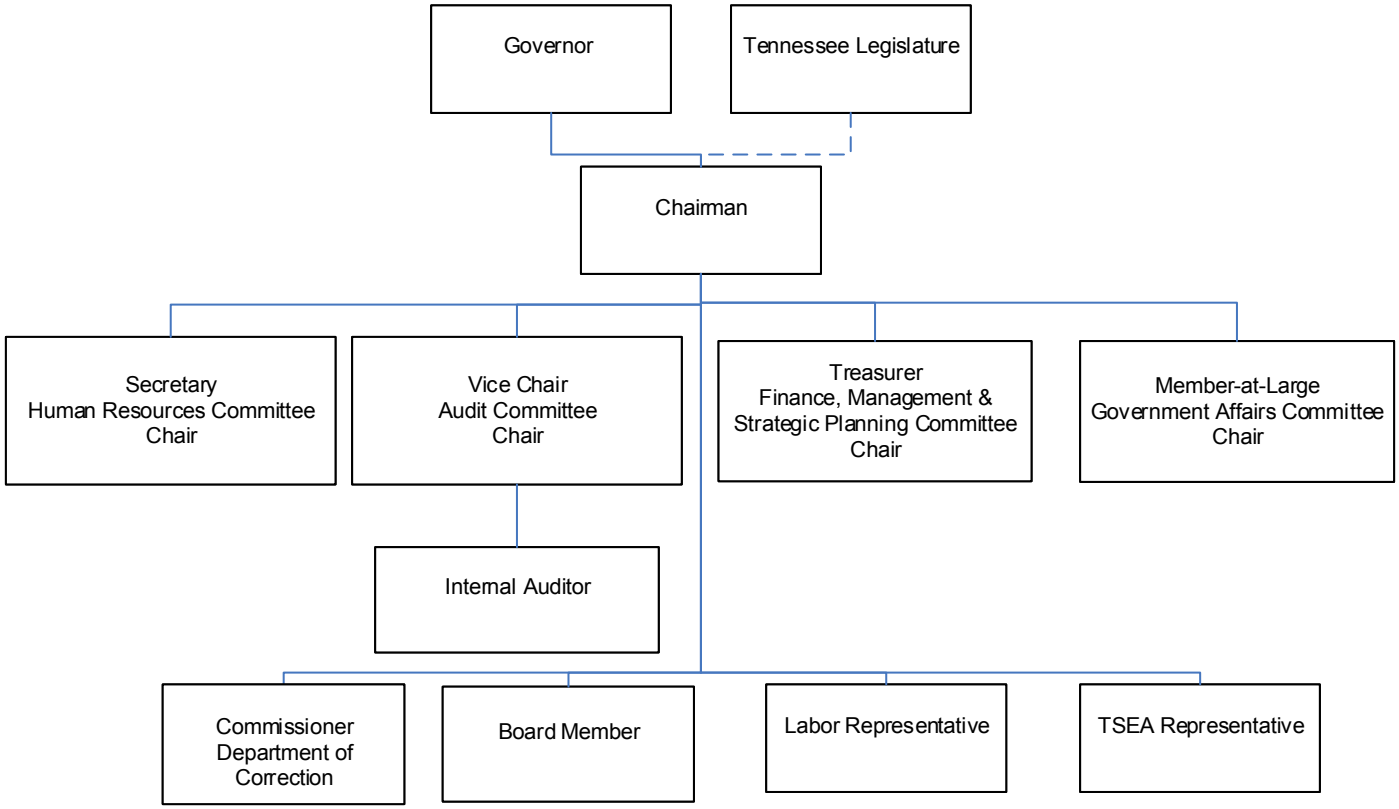
SUMMARY OF SIGNIFICANT ORGANIZATIONAL CHANGES

In response to the prior audit, to strengthen its position and increase transparency, TRICOR made the following organizational changes:

- TRICOR promoted its Chief Operating Officer to Chief Executive Officer (CEO) in 2016.
- TRICOR named a new chair of the board of directors.
- TRICOR's CEO now holds bi-weekly meetings with the chair of the board, and the Internal Auditor has monthly meetings with the Audit Committee chair to keep the board better informed of the status of TRICOR's operations.
- TRICOR underwent its first financial statement audit for fiscal year 2016. The audit report can be found at http://www.comptroller.tn.gov/repository/SA/ag16215.pdf.
- TRICOR upheld its commitment to transparency and improvement, providing all information requested by auditors completely and in a timely manner, as well as correcting, in whole or in part, all findings noted in the 2015 performance audit.

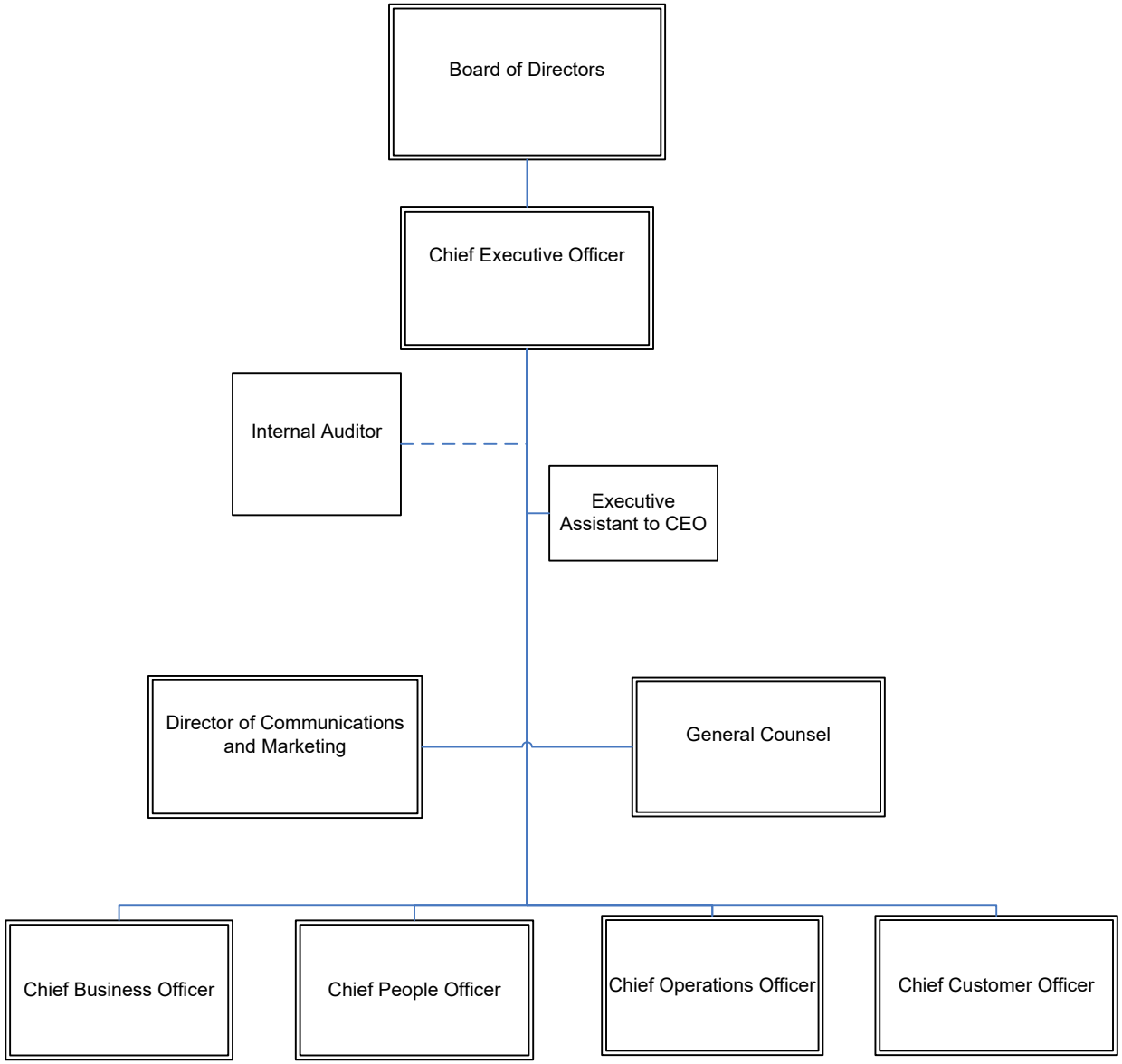
In addition to these changes, the Department of Finance and Administration, as part of its collaborative agreement with TRICOR, hired a new Controller for TRICOR in February 2017.

TRICOR Board of Directors
Organizational Chart
June 2017



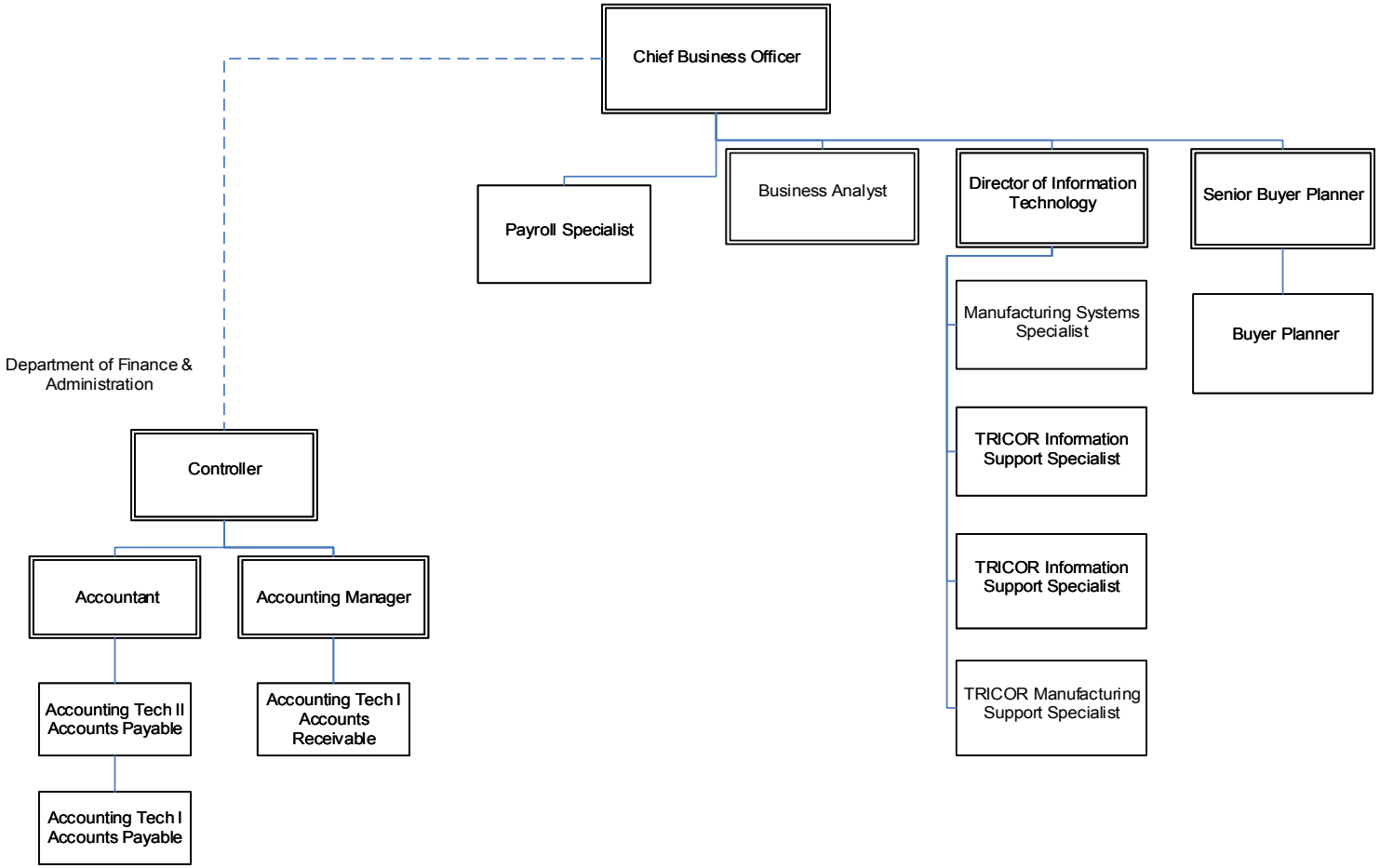
TSEA – Tennessee State Employees Association.
Source: TRICOR management.

TRICOR Executive Team
Organizational Chart
June 2017



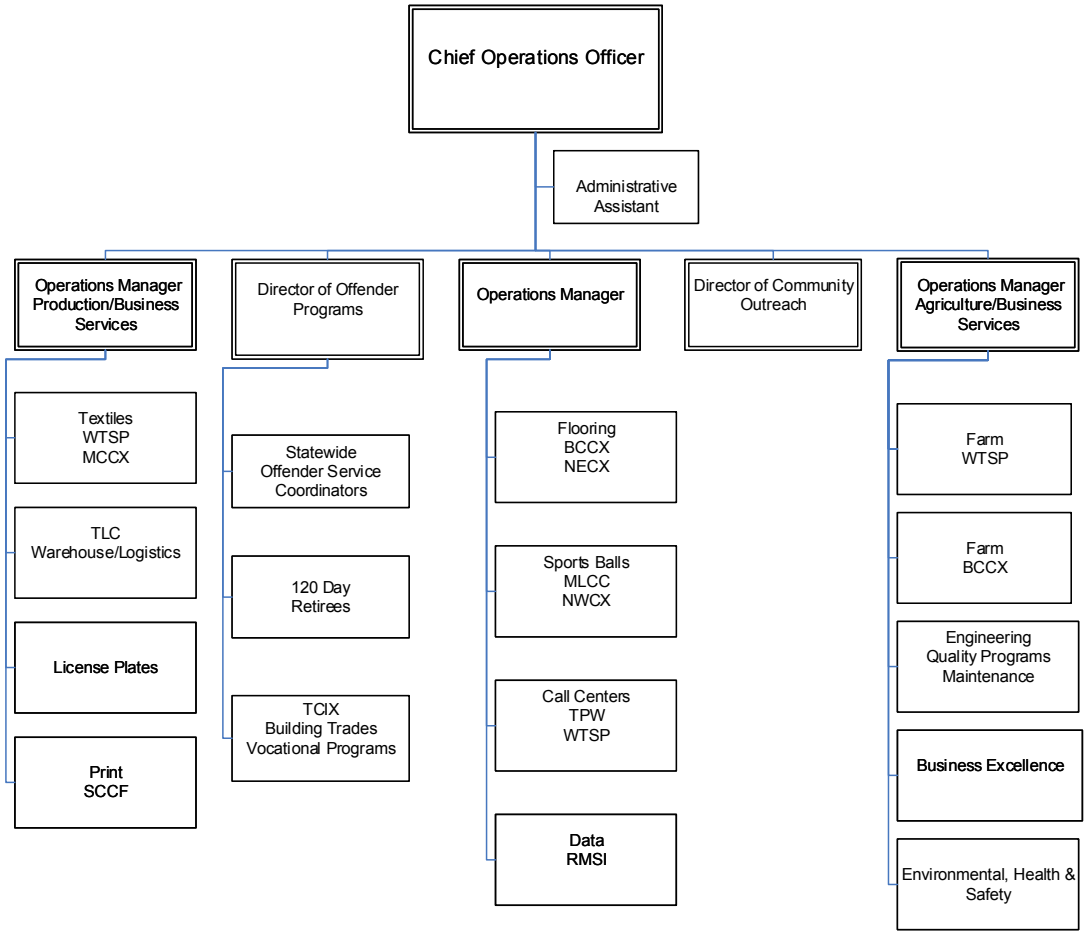
Source: TRICOR management.

TRICOR Business Support Services Team
Organizational Chart
June 2017



Source: TRICOR management.

TRICOR Business and Offender Programs Team
Organizational Chart
June 2017



BCCX – Bledsoe Correctional Complex
MLCC – Mark Luttrell Correctional Center
MCCX – Morgan County Correctional Complex
NECX – Northeast Correctional Complex
NWCX – Northwest Correctional Complex
RMSI – Riverbend Maximum Security Institution
SCCF – South Central Correctional Facility
TCA – Tennessee Correction Academy
TPW – Tennessee Prison for Women
TLC – TRICOR Logistics Center
TCIX – Turney Center Industrial Complex
WTSP – West Tennessee State Penitentiarv

Source: TRICOR management.

AUDIT SCOPE

We have audited the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) for the period June 1, 2015, through June 30, 2017. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

- offender programs, including the administration of offender payroll;
- state cost savings;
- the Tennessee Cook Chill Program closure;
- TRICOR's financial and administrative operations, including accounting, information systems, and contract administration;
- agriculture and dairy operations; and
- management's annual risk assessment.

TRICOR management is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts.

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*, 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. In response to the September 2015 performance audit, the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) filed its report with the Comptroller of the Treasury on February 29, 2016. We conducted a follow-up of the prior audit findings as part of the current audit.

RESOLVED AND PARTIALLY REPEATED AUDIT FINDINGS

The current audit disclosed that TRICOR resolved the following previous audit findings completely or in part:

- Management completely resolved the findings regarding
  - TRICOR and the Department of Correction operating the Tennessee Cook Chill program without executed agreements;
  - management's inadequate controls over monitoring professional services contracts; and
  - management's failure to submit a Financial Integrity Act reporting package for two consecutive years.
- Management partially resolved the finding regarding TRICOR's failure to ensure that fiscal staff performed key fiscal and financial reporting functions, which led to a breakdown in controls and resulted in material financial misstatements and board decisions based on inaccurate financial information. Management corrected four of the six items noted in the finding; however, the remaining two items have not been fully resolved and are repeated as a finding in the applicable section of this report. They are
  - management's controls over accounts receivables and accounts receivable write-offs; and
  - management's failure to accurately report financial information for presentation in the state's *Comprehensive Annual Financial Report*.
- Management partially resolved the finding regarding TRICOR's failure to provide adequate internal controls in four specific areas. One area has been resolved; however, three areas have not been fully resolved and are repeated in the applicable section of this report.

AUDIT CONCLUSIONS

OFFENDER PROGRAMS

Prison Industry Enhancement Certification Program

The U.S. Department of Justice's Bureau of Justice Assistance certified the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) for the Prison Industry Enhancement Certification Program (PIECP) in 1991, and TRICOR is the sole contact for the State of Tennessee if any county, city, or state jail system chooses to participate in the program.

Under the program, the Bureau of Justice Assistance certifies that local or state prison industry programs meet all the necessary requirements to be exempt from federal restrictions on prisoner-made goods used in interstate commerce. The program places inmates in realistic work environments and provides them with a chance to develop marketable skills to increase their potential for rehabilitation and meaningful employment upon release. PIECP's Final Guideline discusses the requirements for continued eligibility to participate, which include

- paying offenders a prevailing wage,[4] and verifying prevailing wages annually;
- ensuring program operations do not displace non-offenders in the area;
- providing benefits, such as workers' compensation;
- ensuring offenders' participation in the program is voluntary; and
- taking only those deductions from offenders' wages that are allowable under the guidelines.

Under Section III(d)(5) of the Final Guideline, PIECP allows deductions, such as reasonable room and board; taxes (such as federal and state income taxes); family support; offender savings accounts; and crime victim compensation or assistance. Total deductions may not exceed 80% of the offender's gross wages.

Through PIECP, TRICOR partners with two flooring manufacturers and manages flooring operations in three Department of Correction facilities. For offenders working in the PIECP operations, TRICOR deducts the following items from gross wages to offset the costs of incarceration:

- 35% to fund offender training programs;
- 5% for the state's Criminal Injuries Compensation Fund; and
- up to 10% from net wages to be deposited into the offender's savings account, the balance of which is remitted to the offender upon release.

To ensure TRICOR pays offenders participating in PIECP a prevailing wage, TRICOR submits an annual wage plan to the Tennessee Department of Labor and Workforce Development to certify they are paying prevailing wages. TRICOR management also submits quarterly reports to the Bureau of Justice Assistance to demonstrate that wages paid to offenders meet the program's requirements.

[4] Prevailing wages are amounts that are at least minimum wage and would be paid to non-offenders in a similar role in that geographic area.

Non-PIECP Operations

TRICOR offender programs also include operations that are not under the governance of PIECP. Non-PIECP programs offer various opportunities that include the following:

- Administrative and business services – Offenders are trained to work in a professional office environment and perform basic office functions such as data entry, data scanning, and archival services.
- Call centers – Offenders are trained to effectively communicate with customers and apply learned marketing skills as they process outbound calls in both the business-to-business and business-to-consumer markets.
- Building trades – Offender students are trained in the fundamentals and advanced stages of construction. They complete courses for college credit and are nationally certified through the National Center in Construction Education and Research (NCCER) in Construction Core, Carpentry 1 and 2, Electrical 1 and 2, and Plumbing 1 and 2, and HVAC. Participants also receive forklift certification for building trades.
- Manufacturing – Offenders perform tasks using industrial machinery associated with textile and license plate manufacturing and print production. Participants primarily receive forklift certification.

Offenders working in such operations are paid a wage at the job's market rate, which is most often lower than a prevailing wage. TRICOR withholds deductions for offenders' savings accounts, but does not withhold deductions to fund offender training programs or the state's Criminal Injuries Compensation Fund.

For both PIECP and Non-PIECP operations, TRICOR includes offender compensation and deductions in its policies and standard operating procedures. The policies and procedures document the types of work programs in which offenders may participate; the compensation plans for those programs; and other worksite rules and regulations. The policies also state that participation in programs offered does not give offenders State of Tennessee employee status.

Audit Results

Audit Objective: Did management's deductions and use of offender wage deductions comply with PIECP requirements and relevant internal policies?

Conclusion: TRICOR management's deductions and use of offender wage deductions did comply with PIECP requirements and relevant internal policies.

We surveyed nine states to compare TRICOR's offender wage deductions and uses to these states. Based on the survey results, TRICOR's deductions and uses did not significantly differ from deductions and uses in other states.

Methodology To Achieve Objective

To achieve our objective, we interviewed key personnel and reviewed applicable TRICOR and federal policies to obtain an understanding of the offender training programs, the payroll process, and deductions from offenders' gross wages. We performed a walkthrough with staff to document the process for calculating offender payroll, and we reviewed examples of documentation used to track and calculate offender pay and deductions. We obtained and reviewed copies of the quarterly reports submitted to the federal Bureau of Justice Assistance, and reviewed the annual wage plan approved by the Tennessee Department of Labor and Workforce Development. Additionally, we reviewed expenditures funded through offender payroll deductions to determine if the expenditures were reasonable and met program guidelines. We also surveyed a select number of states with PIECP and compared the use of funds withheld from offender pay to TRICOR's uses.

STATE COST AVOIDANCE

The Tennessee Rehabilitative Initiative in Correction Board's (TRICOR) mission is "to prepare offenders for success after release." Additionally, Section 41-22-403 (2)(B), *Tennessee Code Annotated,* charges TRICOR with reducing the costs of incarceration by generating revenue through the sale of goods and services. Not only do the revenues generated enable TRICOR to operate self-sufficiently, but its revenues also help defray costs that the Department of Correction would otherwise potentially incur. TRICOR management and staff reduce the potential costs of incarceration to the state by providing vocational programming to offenders, thereby contributing to the reduction of recidivism rates.

In addition to engaging offenders in work activities through TRICOR's business lines, TRICOR also provides offenders in its programs with various trainings, such as life skills training and *Thinking for a Change*,[5] that equip offenders with skills that will contribute to their success once they are released. Some of these skills include how to maintain a work-life balance, resolve conflicts, find a job, and obtain important legal documents such as a driver's license. The skills taught in these trainings are intended to prepare offenders for challenges they will face outside of prison, so they can successfully overcome challenges and avoid returning to prison. TRICOR also provides services to offenders post-release, such as job search and housing search assistance, to help them successfully re-enter society.

[5] Thinking for a Change 4.0 is an integrated cognitive behavioral change program authored by Jack Bush, PhD; Barry Glick, PhD; and Juliana Taymans, PhD and is under a cooperative agreement with the National Institute of Corrections.

The Department of Correction determined that, for fiscal year 2015, it provided vocational training to offenders at a cost to the department of $5.01 per hour per offender, which the department funded with state appropriations. When TRICOR provides additional vocational programming to the offenders, the costs to TRICOR are funded through partnerships with companies who engage offenders in their programs.

To determine the redirected state appropriations for other purposes to the state by using TRICOR to provide vocational programming, TRICOR multiplied the $5.01 departmental rate by the number of hours that offenders participated in work or training, according to TRICOR's offender payroll records. For fiscal year 2016, TRICOR management estimated and reported in the TRICOR annual report that it reduced costs to the state by $7,539,028 by providing vocational programs. We did not attempt to audit TRICOR management's claim to these state savings.

Successful offender programs are one of the methods that contribute to the reduction of recidivism rates. For fiscal year 2016, TRICOR calculated the three-year cost avoidance due to a reduction in recidivism for offenders who were released from prison during fiscal year 2013. TRICOR based its calculations on

- the number of offenders who complete TRICOR's basic program and remain out of prison for three years;
- the average cost of one year in prison;
- the difference between the Department of Correction's recidivism rate and TRICOR's recidivism rate; and
- three years, which represents the post-release period used to calculate recidivism.

TRICOR reported in its 2016 annual report that it helped the state avoid incarceration costs of $475,000 due to its reduction of recidivism rates for these offenders.

Audit Results

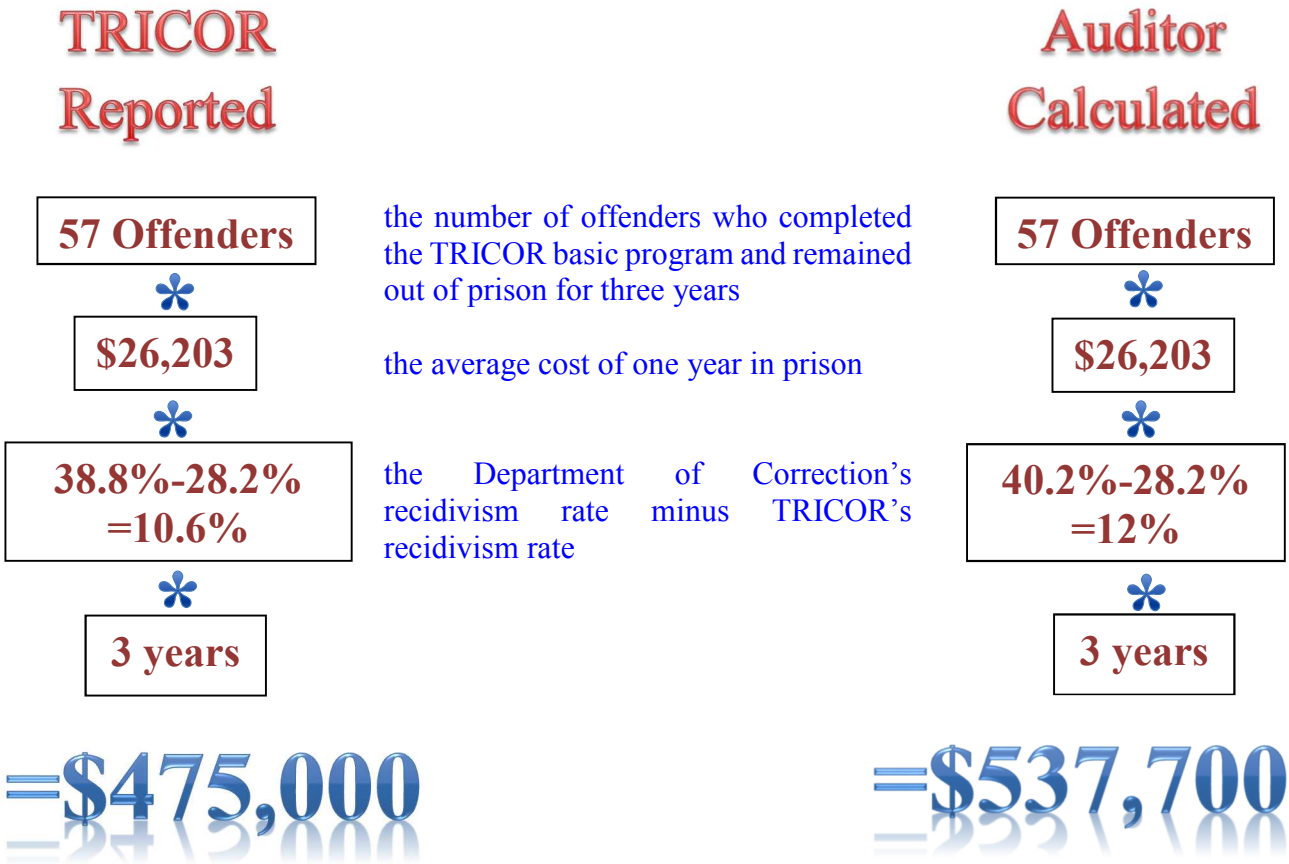
1. **Audit Objective:** Did TRICOR have post-release services in place to aid offenders in their transition back into society?

   Conclusion: TRICOR had post-release services in place to aid offenders in their transition back into society and provided these services to 80 released offenders during fiscal year 2016.

2. **Audit Objective:** Did TRICOR's operations and programming potentially result in the avoidance of incarceration costs, and did TRICOR accurately calculate its estimation of potential cost avoidance using a reasonable methodology?

   Conclusion: To determine mathematical accuracy, we recalculated TRICOR's estimates of cost avoidance based on vocational programming hours provided and on reduced recidivism rates. We determined, with input from the Department of Correction, that TRICOR's methodology was reasonable.

We did note, however, that TRICOR, in its annual report, likely underreported potential cost avoidance due to reduction in recidivism, as the result of math error in its calculation. See the illustration below.



To calculate cost avoidance due to a reduction in recidivism for its 2016 annual report, TRICOR used a 38.8% rate, which they stated was the Department of Correction's most recent published recidivism rate for state facilities, published in 2010 (see "TRICOR Reported" above).[6] The Department of Correction publishes Tennessee's total recidivism rates annually on the Transparent Tennessee website. According to the Department of Correction, the recidivism rate for prisons (state and private facilities) for fiscal year 2016 was 40.2%. We recalculated cost avoidance from recidivism using TDOC's 2016 prison recidivism rate of 40.2% (see "Auditor Recalculated" above).

Methodology To Achieve Objectives

To meet our objectives, we interviewed key TRICOR personnel to obtain an understanding of the methodology management used to calculate TRICOR's cost avoidance to the state, and we documented this process. We reviewed a list of post-release services provided to offenders who were released in fiscal year 2016. We reviewed TRICOR's offender payroll records for fiscal year

[6] The Department of Correction actually published a rate of 39.9% in 2010. In TRICOR's 2016 annual report, management incorrectly used 38.8% in their calculation.

2016 and recalculated the costs the Department of Correction could have incurred if it provided these services instead of TRICOR. We reviewed TRICOR's release records and recalculated the potential cost avoidance due to reduced recidivism using information provided by TRICOR and the Department of Correction; we did not perform procedures to verify the numbers used in the calculation (see illustration above). We reviewed documentation showing how the Department of Correction determined the $5.01 rate, and we discussed the cost avoidance calculations with Department of Correction fiscal management.

TENNESSEE COOK CHILL PROGRAM CLOSURE

General Background

The Tennessee Comprehensive Food Service Program, also known as Tennessee Cook Chill, was established in July 1995 under a third-party management fee contract. Under the Department of General Services' monitoring, a vendor managed the program from a state facility and was responsible for procuring, preparing, packaging, storing, and delivering prepared and pass-through food items to state entities in exchange for a management fee and reimbursement of variable overhead and equipment maintenance expenses. After the vendor's contract expired on June 30, 2010, the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) took over the program. TRICOR's state customers included the Department of Children's Services; the Department of Intellectual and Developmental Disabilities; the Department of Mental Health and Substance Abuse Services; and the Department of Correction, the latter of which was TRICOR's largest customer.

From July 1, 2010, through December 31, 2013, TRICOR's executive management used a billing model similar to the one developed by the program's previous private vendor. Effective January 1, 2014, TRICOR implemented the Standard Menu Program for meals ordered by the Department of Correction. With this program, TRICOR provided the department with meal kits for offenders housed in state-run correctional facilities, based on orders the department submitted to TRICOR. TRICOR billed the department a standard price for each meal kit ordered per offender per day, based on the number of offenders the department provided. Under this program, TRICOR did not charge a separate management fee.

Results From the Prior Audit

During the prior audit, we determined that TRICOR operated the Cook Chill program without an executed written agreement with the Department of Correction. TRICOR and the Department of Correction originally had a written agreement in place, but it expired in 2012. TRICOR and department management had different expectations of the new Standard Menu Program. TRICOR expected to profit through the program by charging the department a price per kit that was lower than the costs of production based on the expectation that the department ordered meal kits for 100% of offenders for every meal. The department, however, would order for less than 100% because not every offender eats every meal. The department expected that its ordering patterns were irrelevant to the price TRICOR charged them. Without a written agreement to clarify

expectations, however, these misunderstandings resulted in unmet expectations for both agencies and a $4 million program loss[7] for TRICOR.

We recommended that the TRICOR board ensure management established policies and procedures that required written executed vendor agreements with clear delineations of all parties' authorities, responsibilities, and fiscal relationships before providing goods or services. We also recommended the board work with TRICOR's executive management and its customers, specifically the Department of Correction, to assess the current business model for Cook Chill and develop a plan that was both profitable for TRICOR and ensured TRICOR's customers received the best goods and services possible. The plan was also to include an exit strategy in case the program was no longer viable.

Results of Current Audit Work

The Department of Correction released a request for proposal in late December 2015 to procure meal services for the state-run prisons. The TRICOR board and management assessed the Cook Chill operations and determined that TRICOR would not bid to renew its agreement with the department. TRICOR did, however, execute a written agreement with the department to provide food service to the prisons, which was effective until the department secured a new vendor to assume operations. Additionally, TRICOR management implemented a new policy that requires written agreements with customers purchasing their goods and services. The department awarded the food service operations contract to a private vendor, and TRICOR ceased Cook Chill operations on September 20, 2016. TRICOR transferred ownership of the Cook Chill assets to the Department of Correction.

Current Audit Results

Audit Objective: Did the TRICOR board and management ensure the closure of Cook Chill and the disposal of associated equipment complied with applicable TRICOR policies and state guidelines?

Conclusion: The TRICOR board and management ensured the closure of Cook Chill and the disposal of associated equipment complied with applicable TRICOR policies and state guidelines. With the assistance of the Department of General Services, TRICOR transferred equipment associated with Cook Chill to the Department of Correction. The transfer of property was in accordance with the agreement between TRICOR and the Department of Correction.

When TRICOR took over food service operations in 2010, the Department of Correction planned to transfer the building's ownership to TRICOR. The paperwork to transfer the building was never completed; therefore, the transfer did not occur. Due to the significant passage of time, we could not determine the reason that the Department of General Services did not initially transfer the building to TRICOR. As a result, TRICOR did not have to transfer the building ownership back to the Department of Correction when Cook Chill closed.

[7] TRICOR incurred the $4 million program loss from January 1, 2014, through March 31, 2015.

Methodology To Achieve Objective

To obtain an understanding of the sequence of events from the prior audit to the closure of the Cook Chill program, we interviewed key personnel. We obtained and reviewed the most recent written agreement between TRICOR and the Department of Correction, as well as relevant policies and documentation regarding the program's closure.

FINANCIAL OPERATIONS

General Background

To fulfill its mission to reintegrate Tennessee's offenders into society, the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) operates in partnership with the Department of Correction and other entities to provide training and transitional opportunities to offenders. As required by Section 41-22-408, *Tennessee Code Annotated,* TRICOR's board "shall assist TRICOR in maintaining the quality of management processes and reporting, providing for the adequacy of financial and accounting control systems and serving as a communications channel between TRICOR managers and auditors." Even though TRICOR was created to operate as freely as possible to achieve its mission, TRICOR is an internal service fund[8] of the Tennessee state government, accounted for under business unit code 31608 in Edison (the state's official accounting system), and the fund's financial information is reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR), which is prepared by the Department of Finance and Administration's (F&A) Division of Accounts.

Results From the Prior Audit

In the 2015 performance audit, we found that TRICOR management failed to ensure fiscal staff performed key fiscal and financial reporting functions, which led to breakdowns in controls that resulted in material financial misstatements and board decisions based on inaccurate financial information. Management did not have controls in place to

- ensure staff recorded accounts receivable and accounts payable completely and accurately;
- ensure staff promptly followed up on past due receivables;
- ensure fiscal duties were properly segregated to reduce the risk of opportunities for fraud, waste, and abuse of TRICOR's resources; and
- ensure financial information reported in the state's CAFR was reasonably accurate.

[8] According to *Defining Tennessee Audit: A Glossary of Audit Terms*, published by the Office of the Comptroller of the Treasury, an internal service fund is used when a government entity provides goods and services to other government entities based on a fee using a cost-reimbursement basis. The government entity acts similar to a business in some respects; however, it cannot earn a profit.

Due to TRICOR's unique operations in the manufacturing sector, which required cost accounting[9] capabilities that were not available in Edison, TRICOR management used a separate information system to account for its manufacturing operations. The prior audit identified the lack of integration between Edison and the TRICOR Integrated Management System (TIMS) as one reason for significant reporting differences between TRICOR's internal financial statements and the CAFR. We recommended that TRICOR and F&A form a collaborative agreement and establish a financial control environment, which should, at a minimum, include appropriate risk control activities to help ensure that

- all financial information and accounts are properly and accurately recorded and reported to reflect TRICOR's financial position;
- TRICOR's internally prepared year-end financial statements agree with information provided to the Division of Accounts for preparation of the CAFR;
- TRICOR's Edison vendor payments are promptly reconciled to TIMS to update the accounts payable transactions and substantiate the year-end accounts payable balance; and
- all past-due accounts receivable balances for customers are collected, a reasonable allowance for doubtful accounts is established, and past-due accounts deemed uncollectible are written off.

In addition to the control issues we noted in the prior audit, we also received allegations that management misled the board and improperly influenced financial reporting by avoiding write-offs of obsolete inventory and uncollectible accounts to ensure bonuses were paid. While we could not speak to intent, we expressed serious concerns about TRICOR management's ability to report accurate financial information.

Results From the Current Audit

Since the prior audit,

- TRICOR entered into a collaborative agreement with F&A in October 2015;
- TRICOR's fiscal staff transferred to F&A during 2016, though they still handle TRICOR's fiscal operations and are located at TRICOR's central office; and
- F&A hired a new Controller in February 2017 to manage TRICOR's fiscal operations.

The Controller also works closely with TRICOR's Chief Business Officer to highlight areas of weakness in TRICOR's fiscal operations and develop corrective actions to help TRICOR report accurate and reliable financial information.

[9] Cost accounting is a type of accounting process used to capture an entity's production costs (e.g., raw materials and labor) by assessing each step of the production process. It is primarily used to measure financial performance and to aid in management's decision-making.

In addition to the personnel changes, F&A also conducted a study in early 2016 to determine the feasibility of purchasing a cost accounting module to integrate into Edison and thus replace TIMS. Based on the study, F&A proposed four alternative options:

- the first three options involved replacing TIMS with Peoplesoft, the platform on which Edison is based, or other Oracle modules; and
- the fourth option was to take no immediate action to replace the system in the short term, continue developing an interface between TIMS and Edison, and assess platform alternatives when TIMS reaches the end of its product life.

F&A recommended the fourth option, because Oracle did not plan to enhance the Peoplesoft manufacturing modules beyond the current version. Oracle advised against replacing TIMS with another Oracle product at this time, because it would require custom interfacing between Edison and the other product, with which F&A does not have prior experience. As a result, TRICOR still uses TIMS, but it has made progress in developing interfaces between TIMS and Edison to ensure financial information reported in the CAFR will be more reasonably accurate in the future.

With F&A's assistance, TRICOR also prepared its first set of stand-alone financial statements for fiscal year 2016, and our office conducted TRICOR's first financial statement audit. We issued a disclaimer of opinion on TRICOR's financial statements, meaning that we were unable to obtain sufficient, appropriate audit evidence to express an opinion on the financial statements. See http://www.comptroller.tn.gov/repository/SA/pa17262.pdf for the financial statement audit report.

While TRICOR and F&A's partnership has not yet solved all issues noted in the prior audit, the new Controller is experienced in government accounting. Additionally, TRICOR management has made concerted efforts to provide the board of directors with timely and accurate information to assist them with decisions impacting TRICOR's future.

Current Audit Results

1. **Audit Objective:** Did management and staff record and promptly follow up on all accounts receivable and accounts payable?

   Conclusion: Management recorded all accounts receivable and promptly followed up on all accounts payable; however, through its follow-up of past-due receivables, management inappropriately wrote off approximately $321,000. See **Finding 1.**

2. **Audit Objective:** Did management implement a process to ensure they reported reasonably accurate financial information to the board of directors and in the CAFR?

Conclusion: TRICOR management and F&A began designing a system of controls to ensure that TRICOR's information in the CAFR is reasonably accurate. Due to TRICOR's complex operations, this process will take time to thoroughly design and implement. At the time of the most recent CAFR (fiscal year 2016), new processes and controls were not yet fully implemented. See **Finding 1.**

3. **Audit Objective:** Did management ensure adequate segregation of duties for the sales invoicing and accounts receivable processes?

   Conclusion: Management ensured adequate segregation of duties for the sales invoicing and accounts receivable processes.

4. **Audit Objective:** Did management implement adequate controls in other areas?

   Conclusion: Management did not implement adequate controls in three areas. See **Finding 2.**

Methodology To Achieve Objectives

To meet our objectives, we interviewed key TRICOR and F&A personnel to obtain an understanding of the changes TRICOR implemented within its fiscal operations and to observe TRICOR's current financial environment. We interviewed board members to gain an understanding of management's relationship with the board and how management kept the board informed of important information regarding TRICOR operations. We obtained and reviewed aged accounts receivable reports and accounts payable reports to determine if TRICOR promptly followed up on any past due receivables and payables. We reviewed supporting documentation for uncollectible receivables that TRICOR wrote off during fiscal year 2016. We compared information reported on TRICOR's 2016 balance sheet to the 2016 CAFR's statement of net position. We documented and concluded that fiscal controls over invoicing were in place and properly segregated. We reviewed controls over four other areas to ensure TRICOR established controls compliant with state policy and best practices.

Finding 1 – While TRICOR management has begun implementing corrective action since the previous audit report, controls over fiscal operations and financial reporting still require additional improvements

Though the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) and the Department of Finance and Administration (F&A) have begun to develop and implement processes to address deficiencies in TRICOR's fiscal operations, and while we acknowledge that management has made improvements to their operations, we found that fiscal operations require further improvements. Specifically, we noted that fiscal staff

- did not write off uncollectible receivables in accordance with state policy, and

- did not ensure the financial information reported in the state's *Comprehensive Annual Financial Report* (CAFR) reconciled with TRICOR's financial statements.

Write-offs for Uncollectible Accounts Receivable

In the TRICOR Integrated Management System (TIMS), fiscal staff and management wrote off approximately $321,000 in uncollectible receivables during fiscal year 2016, but they did not submit the write-off to F&A or to the Comptroller's Office for approval prior to writing them off. F&A Policy 23, "Accounts Receivable - Recording, Collections, and Write-offs," states, "Write-off requests should be submitted with supporting material to the Division of Accounts for reporting and approval." Additionally, the *Rules of the Department of Finance and Administration,* Chapter 0620-1-9-.02, state

> For write-offs of accounts of five thousand dollars ($5,000) or greater, or accounts aggregating to twenty-five thousand dollars ($25,000) or greater, the agency, department or institution shall obtain written approval of the Commissioner of Finance and Administration and the Comptroller of the Treasury.

While management did not follow state policies in fiscal year 2016, TRICOR's current fiscal management has begun to revise TRICOR's collection policies, including write-off policies, to ensure future collections and write-offs of uncollectible accounts comply with the requirements set forth in state policy. Current management also intends to thoroughly research the receivables in unapproved write-offs to verify the receivables are truly uncollectable before submitting a write-off through the proper channels.

Financial Reporting

From our comparison of TRICOR's year ended June 30, 2016, balance sheet (unaudited) to the state's CAFR for the same reporting period, we observed significant differences in the account balances reported. The largest differences we noted were in

- cash,
- net receivables,
- structures and improvements, and
- capital assets.

Management did not perform a reconciliation to compare the financial statements provided to the board with the financial statements reported in the CAFR, nor did they implement policies and procedures to reconcile all account balances to ensure accurate representation in the CAFR.

TRICOR's lack of prior experience and understanding of government accounting standards may have contributed to issues in financial accounting over time. With a new Controller, fiscal staff have begun to reconcile accounts monthly and investigate errors and inconsistencies noted in prior years in order to understand the differences in account balances between TIMS and Edison.

Management is responsible for implementing an internal control system to document data relevant to their operations and to protect the agency from the risks of fraud or errors. According to Principle 10.02 of the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book),[10]

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives.

Additionally, Principle 16.05 states,

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

Management's continued commitment to implementing proper controls and addressing deficiencies within their financial environment is crucial to ensure TRICOR's future success. If management were to abandon its efforts to identify, assess, and mitigate risks by implementing proper internal controls, including collection policies and procedures and accurate financial reporting and reconciliations, management would increase the risk of material financial misstatements due to error, fraud, waste, or abuse.

Recommendation

We recommend that TRICOR and the Department of Finance and Administration continue to work toward fully implementing a financial control environment that accomplishes the basic objectives of effectiveness and efficiency; reliability of financial reporting; and compliance with applicable laws and regulations. We emphasize that designing and implementing the necessary processes and controls to achieve the desired financial control environment will likely require significant time, which is not unusual for this type of endeavor.

Management's Comment

We concur. At the time of the prior audit, many significant deficiencies required improvements in multiple areas. Since that time, the Department of Finance and Administration (F&A) has taken responsibility for transactional and general ledger accounting for TRICOR. A controller has been hired permanently as of February 2017, accounting personnel have improved

[10] The Green Book provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other governmental entities, including state agencies.

their skills through coaching and training, and a general broader knowledge base over policies and procedures surrounding fiscal matters has been established.

The issue concerning the write-off of accounts receivable was a compliance issue, and did not affect reported operational results. However, this deficiency was corrected by reversing the inappropriate entry. TRICOR and F&A personnel are currently in the process of researching, documenting collection efforts, and obtaining appropriate approvals in order to write off these uncollectible accounts in a way to preserve transparency and accountability.

Reconciliation of TRICOR financial statements to the state's CAFR has been a priority during the current year, but was not completed during the fieldwork of this audit. Since the fieldwork ended, much progress has been made by F&A accountants assigned to TRICOR. There is a process in place to ensure routine reconciliation of both TIMS and Edison balance sheet accounts. F&A and TRICOR management are committed to strengthening the financial control environment to enhance effectiveness and efficiency, the reliability of financial reporting, and compliance to applicable laws and regulations. All aspects of the financial control environment are under continued scrutiny with these goals on mind.

Finding 2 – TRICOR management did not provide adequate controls in three specific areas

The Tennessee Rehabilitative Initiative in Correction Board did not design and monitor internal controls in three specific areas. Ineffective internal controls increase the risk of fraud, errors, or data loss. 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 our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. 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

We concur. We are working on corrective actions.

CONTRACT ADMINISTRATION

General Background

State law authorizes the Tennessee Rehabilitative Initiative in Correction's (TRICOR) board of directors to purchase and contract for materials and services to develop jobs to train the states' offenders who are incarcerated within Department of Correction facilities. Offenders are placed in industrial, business, or agricultural programs to help ensure post-incarceration success. TRICOR is also authorized to procure products or services in order to generate revenue to offset the costs of incarceration. Specifically, pursuant to Section 41-22-408(a), *Tennessee Code Annotated,* the board may

> contract for professional services, for which reimbursement may be established on an incentive basis, and for the lease or purchase of property and equipment, to be provided for TRICOR, that is necessary to efficient discharge of its duties to manage and operate.

Additionally, Section 41-22-406(a)(2) grants the board authority to develop the methods for purchasing raw materials, supplies, services, and equipment necessary for the production and timely delivery of TRICOR products. TRICOR management and the board developed TRICOR's *Purchasing Procedures Manual* (TRICOR Policy 311.01), which the Central Procurement Office approved on March 20, 2014.

TRICOR management utilizes contracts to secure recurring professional services and raw materials for ongoing operations. TRICOR's *Purchasing Procedures Manual* requires that management use an informal solicitation process where possible for all purchases of goods, equipment, or services exceeding $10,000, and a formal competitive solicitation for purchases that exceed $50,000. Staff are not required to solicit bids for small purchases under $10,000 or products available only from a sole source. Management may also pursue a noncompetitive contract if the product or service is only available from a sole source or if using a specific vendor is in TRICOR's best interest. Staff must document reasons for pursuing a noncompetitive contract and obtain management approval prior to executing the contract, unless the arrangement involves a state or federal government agency.

Contract Purchasing Process

Professional Service Contracts and Raw Materials Contracts

When staff determine they require a material or service for their operations, they submit a requisition first to their manager for approval and then to the Purchasing division for procurement. The buyer planners, in conjunction with the Contract Administrator, prepare solicitations where necessary, and develop and award the contracts to vendors.

To document the costs associated with raw materials purchases, staff generate purchase orders in the TRICOR Integrated Management System (TIMS), and staff are expected to ensure

purchase orders identify the current and correct contract number, as well as review the contract to ensure only items included in the contract are included in the purchase orders. Due to uncertainties with the exact volume of raw materials required, TRICOR does not establish a maximum liability for raw materials contracts; instead, solicitations contain an estimate of the likely purchase volume.

To document the costs associated with professional services contracts, contract staff generate blanket purchase orders (POs) in TIMS. Contract staff began using blanket POs for service contracts to ensure they did not exceed contract maximum liabilities and to prevent duplicate payments to contractors. Unlike a purchase order, which staff create for a single purchase of one or more items, blanket POs establish a system-enforced contract maximum liability. The blanket POs contain multiple line items that cover all service terms the vendor will perform during the contract term. When the contractor bills for services performed, staff review the invoice and compare it to the contract to verify the services billed were in fact received and were part of the contract. Staff then enter the charges on the appropriate line item on the blanket PO. Staff cannot charge to the same line item multiple times.

TRICOR management and staff maintain a record of purchase orders and blanket purchase orders in TIMS, as well as paper files containing supporting documentation of the purchase, such as the solicitation and bids; the contract; and a routing sheet that documents management's approval of the contract.

Revenue Contracts

TRICOR Policy 408 requires the use of revenue contracts to delineate the contract parameters for business ventures between TRICOR and non-government businesses; for government entities, TRICOR uses memoranda of understanding or interagency agreements and assigns a contract number to them for reference. These contracts outline the scope of the goods or services TRICOR will provide, as well as the rates TRICOR will charge for those goods and services. TRICOR uses offender labor for these business ventures to provide offenders with opportunities to work in a real-world job environment and obtain job skills that can transfer into post-release employment. F&A fiscal staff use TRICOR-assigned cost center codes in TIMS when invoicing business partners for goods and services provided to ensure they track revenue earned within the correct business line.

Results From Prior Audit Work

In the 2015 performance audit, we noted that while management implemented some corrective actions to address internal control issues over monitoring professional services contracts, their controls still needed additional improvements. Specifically, TRICOR management still did not have adequate controls in place to ensure they did not duplicate payments to vendors or exceed the maximum contract liability. We also found that accounts payable staff did not review contract files prior to processing payments to verify that payments were proper.

Current Audit Results

1. **Audit Objective:** Did management procure goods and services through contracts in accordance with TRICOR's policies and procedures?

   Conclusion: Management properly procured goods and services in accordance with policies and procedures.

2. **Audit Objective:** Did management implement controls to ensure vendor and contractor payments were accurate and pursuant with contract terms?

   Conclusion: Management implemented controls to ensure vendor and contractor payments for professional service contracts and revenue contracts were accurate and pursuant to contract terms. For raw materials purchased, however, management did not ensure vendor payments were accurate and pursuant with contract terms (see **Finding 3**).

3. **Audit Objective:** Did management monitor the contract payments to ensure the total payments did not exceed the contract maximum liabilities, where applicable?

   Conclusion: Management monitored contract payments to ensure the total payments did not exceed maximum liabilities, where applicable.

4. **Audit Objective:** Did management have revenue contracts in place for all of TRICOR's operations?

   Conclusion: Management had revenue contracts in place for all of TRICOR's operations.

Methodology To Achieve Objectives

To meet our objectives, we reviewed TRICOR's purchasing policies and conducted interviews and walkthrough procedures with contract and purchasing staff to obtain an understanding of the contract process, including the contract creation, invoicing, and payment processes. We obtained and reviewed a list of TRICOR's contracts, and we determined that TRICOR executed 8 new professional service contracts; 18 new raw materials contracts and amendments; and 5 new revenue contracts during our audit period. To determine if TRICOR procured goods and services in accordance with policies and procedures, we reviewed contract files for all 31 contracts and amendments executed during our audit period to confirm that all documents, attachments, amendments, and approvals were on file. We traced documentation in TIMS to determine if the contract was linked to all applicable purchase orders.

To determine if management implemented controls to ensure vendor payments were accurate and pursuant with contract terms, we reviewed contract files to verify effective dates and items or services that were covered in the contracts. We reviewed payments to vendors to ensure

that invoices identified the correct purchase order, that purchase orders identified the correct contracts, and that payments matched the invoices.

To determine if total payments for contracts did not exceed maximum liabilities, we reviewed contract files to verify the maximum liability dollar amounts, where applicable. We then traced records in TIMS to ensure purchased services were outlined in the contract, and total amounts did not exceed the maximum liability.

To determine if TRICOR had revenue contracts in place where appropriate, we interviewed staff and management to obtain an understanding of changes in TRICOR's business lines, and we reviewed revenue contracts to verify contracts were in place where appropriate.

Finding 3 - Management's controls over monitoring raw material contracts need improvement

The Tennessee Rehabilitative Initiative in Correction Board's (TRICOR) *Purchasing Procedures Manual,* Section B.2.c, states, "All purchase orders generated from procurement requests or material resource planning orders must identify the current contract number." Additionally, it states, "A record of purchase orders will be maintained in TIMS for audit purposes, in addition to supporting documentation of the purchase being maintained within the Purchasing Agent's file." Based on our review of all 18 raw materials contracts with an effective date of June 1, 2015, or later, however, we determined that purchasing staff did not always ensure raw materials contracts and related purchase orders complied with the *Purchasing Procedures Manual.* We noted the following deficiencies:

- for 8 of 18 contracts (44%), purchasing staff did not ensure all contract-related purchase orders referenced the correct contract; and
- for 3 of 18 contracts (17%), purchasing staff did not ensure that purchase orders associated with a contract contained only items that were agreed upon in the contract.

As a result of high turnover in the Purchasing division and a lack of comprehensive training of purchasing policies and procedures, purchasing staff did not follow TRICOR policies regarding contracts and purchase orders. By not ensuring purchasing staff are adequately trained in all purchasing policies and procedures, management increases the likelihood of purchasing errors for raw materials, which could result in excessive spending for raw materials and/or purchasing materials not approved in the contracts.

Recommendation

Purchasing and contract management should review purchasing policies as necessary, and they should ensure purchasing staff receive sufficient training to complete their job duties in compliance with TRICOR policies. If management determines that additional controls and policies are necessary, management should revise the policies and provide additional training to the staff responsible for purchasing.

Management's Comment

We concur. As noted in the finding commentary, the purchasing department at TRICOR has had high turnover, so the instances of non-compliance in purchase order documentation were high. Improvement to the ongoing training of people new to the purchasing department has helped yield better results recently.

This is a manual process and as in all processes with human intervention, we can always expect an error rate that we would need either to accept or manage. For this reason, we are evaluating system changes that would provide a better solution. The system changes, if feasible, will automatically populate contract references on purchase orders for those raw materials under contract.

If system changes are not feasible, management will continue enhanced training and add an additional review in the purchase order preparation process.

AGRICULTURE OPERATIONS

General Background

The Tennessee Rehabilitative Initiative in Correction Board (TRICOR) cultivates approximately 2,600 acres of land at the West Tennessee State Penitentiary farm in Henning, Tennessee, which is located in Lauderdale County. The farm's acreage spreads over 39 different fields around the prison. Each year, TRICOR plants and grows wheat in the winter, and soybeans and corn in the spring. When making decisions to prepare annual farming plans, such as the type of seeds to purchase and plant and the number of acres to plant with each seed type, farm management consults with outside resources, such as the Arkansas Cooperative Extension Service, Mississippi State University, and the University of Tennessee Extension office in Lauderdale County. From November 2015 through November 2016, TRICOR planted and harvested approximately 400 acres of winter wheat, 300 acres of corn, and 2,300 acres of soybeans.

Planting and Harvesting Process

TRICOR manages approximately 12 offenders at a time who work at the farm, providing them opportunities to develop skills in farming operations. The offenders plant the crops using a tractor that pulls a seed planter to distribute seeds in the field. At harvest, offenders operate a combine, which is a large machine used to harvest and separate grains or corn. Offenders load the harvested crops into a buggy pulled by a tractor and unload them into a tractor-trailer. Both the planter and combine contain GPS trackers to track acres planted and harvested, but the trackers do not always provide consistent acreages.

Once the trailer is full of harvested crops, an offender prepares the load's delivery ticket, and a TRICOR employee drives the tractor-trailer to a granary to sell the crops. The granary issues a scale ticket, which documents the weight (measured in bushels) for each load received and sold to the granary. Offenders log the delivery and scale tickets into a harvest tracker, which is a spreadsheet used to account for all crop sales. Farm management enters futures contracts[11] for a portion of their anticipated yield each year to ensure they obtain competitive prices for the crops they sell to the granaries to account for market price volatility.

Farm Data

In addition to the harvest tracker, management utilizes farm management reports and field history reports to track and manage data relevant to the farming operations. The farm management reports contain data including revenue earned, weather patterns, farm expenses, budget information, and harvest information. Listed by date, field history reports contain data fields for each field TRICOR manages, including the date the workers planted seeds, the type of seed planted, the approximate acres planted, the chemicals applied to the field, and harvest information. Offenders working at the farm enter data on the reports, and farm management is responsible for reviewing the reports.

Due to the nature of farming operations, management purchases large amounts of supplies, such as seed and chemicals, but they do not store inventory long term. Farm management purchases the quantity of seed needed for the season's planting, and offenders and TRICOR staff maintain an inventory log of purchases and uses. They do store some fertilizers and other chemicals on the farm but do not maintain a large inventory.

Audit Results

1. **Audit Objective:** Did management implement adequate controls to detect and track unusual occurrences regarding seed, herbicide, and chemical inventory and to accurately document harvest information?

   Conclusion: Management implemented controls to detect and track unusual occurrences regarding inventory; however, management did not implement adequate controls to completely and accurately document harvest information. See **Finding 4**.

2. **Audit Objective:** Did management maintain an appropriate segregation of duties related to row crop planning, planting, harvesting, and selling?

   Conclusion: Management appropriately segregated duties related to row crop planning, planting, harvesting, and selling.

[11] A futures contract is an agreement traded on an organized exchange to buy or sell assets, especially commodities, at a fixed price but to be delivered and paid for later.

Methodology To Achieve Objectives

To meet our objectives, we visited the West Tennessee State Penitentiary to interview key personnel and performed a walkthrough of operations; duties; crop sales; and accounting and inventory controls to gain an understanding of TRICOR's row crop operation. We physically inspected a trailer at the farm where TRICOR stored inventory, and we traced five physical inventory items in the trailer to the inventory logbook used to track inventory maintained at the farm. We reviewed farm management reports and field histories for fiscal years 2015 through 2017, and we performed an analysis of soybean seeds purchased compared to acres planted in 2016. We recalculated crop yields for the 2016 soybean harvest, and we discussed regional crop yields with representatives from the U.S. Department of Agriculture and the University of Tennessee Extension Office. We reviewed futures contracts related to the sale of row crops, and we traced the fiscal year 2017 soybean harvest to ensure the offenders and farm management accurately recorded sales. We reviewed delivery and scale ticket documentation for all 83 loads of soybean bushels sold during the most recent harvest, October through November 2016, to ensure offenders accurately recorded information for each load of soybeans on the harvest tracker.

Finding 4 – Farm management did not follow TRICOR policy and industry best practices regarding the documentation and analysis of agricultural operations, limiting management's ability to effectively manage its farming operations

Serving as the basis for the Tennessee Rehabilitative Initiative in Correction Board's (TRICOR) farming policies, industry best practices require the identification of the factors (agricultural inputs) that cause the productivity (agricultural outputs) to change. Management compares various inputs, such as labor, land (yield per acre), seeds, fuel, and fertilizer, to the market value of the crops (outputs). Based on our review, however, management at the West Tennessee State Penitentiary did not maintain complete and accurate records of farm activities in accordance with TRICOR's internal policies. Specifically, we noted the following deficiencies:

- Management did not maintain complete and accurate farm management reports and field histories for the soybean harvest. Specifically, management did not adequately train and supervise offenders responsible for recording harvest data on farm management reports and field histories. The offenders are responsible for recording the input and output data. The high turnover resulted in a lack of understanding of reporting expectations.
- Management did not use consistent methods to gather data relating to acreage and did not establish official acreages. The farm equipment's GPS readings of acreage planted, sprayed, and harvested vary, sometimes significantly; as a result, management cannot rely on the equipment to establish acreages, which could hinder management's ability to analyze productivity.
- For 4 of 83 loads of soybean bushels (5%) sold during the most recent harvest, October through November 2016, management did not ensure that offenders recorded the correct granary scale ticket numbers on the soybean harvest tracker. Although these

errors were an isolated incident, management should have discovered and corrected these errors during their review of the harvest tracker.

- While farm information was not complete, management did not analyze the information that was available to them to ensure the farm was operating efficiently and effectively. For example, management did not verify the reasonableness of seed purchases in comparison to total acres planted; therefore, we conducted an analysis of soybean seeds to total acres. Based on our analysis, farm management purchased 2,900 bags of soybean seed. Each bag cost approximately $40 and contained approximately 140,000 seeds. TRICOR purchased approximately 406,000,000 total seeds. TRICOR intended to plant 160,000 seeds per acre, which means management purchased enough seed to plant approximately 2,537 acres. The field histories, however, showed that TRICOR planted 2,288 acres of soybeans, approximately 175,000 seeds per acre planted, instead of 160,000. According to farm management, the planter may not have been properly calibrated. By planting 15,000 additional seeds per acre, management wasted approximately 285 bags of seed, which cost TRICOR approximately $11,400.

Farm management's limited experience and failure to prioritize complete and accurate documentation limits management's ability to fully assess TRICOR's farm operations in order to understand the sustainability of the operations; make informed budgetary and operational decisions; and identify and correct issues with processes or equipment. Without management's proper oversight and analysis of farm operations, the TRICOR board cannot evaluate the merits of the farm as a viable offender program.

TRICOR Policy 520, "Monthly Farm Reports," requires monthly reporting on farm operations to assist in financial planning, budget preparation, and inventory control. Additionally, TRICOR Policy 522, "Field Histories," states that each field history should contain information regarding acres planted, the type of seed planted, information regarding fertilizers and herbicides applied, and results of the harvested crop.

To ensure the efficiency and effectiveness of farming operations, management is responsible for implementing an internal control system to document data relevant to TRICOR operations and to protect the agency from the risks of fraud or errors. According to Principle 10.02 of the Green Book,

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives.

Additionally, Principle 16.05 states,

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory

activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

Recommendation

Management should provide additional training as necessary to all farm personnel to ensure both TRICOR staff and the offender workforce implement policies and best practices completely, consistently, and timely. Farm management should consider evaluating the current format and content of the farm management reports to ensure data needed for analyses are readily available. Farm management should ensure the harvest tracker is used effectively, and a supervisor should periodically document his or her review of the harvest tracker. Additionally, farm management should consider consulting outside resources, such as the University of Tennessee Extension Office in Lauderdale County, for assistance with implementing industry best practices and for guidance related to analyzing field data to ensure farm operations remain a viable offender training program.

Management's Comment

We concur. TRICOR will provide training to all offenders and staff involved with the gathering of the information for input and output activities. Policies 520 and 522 are under review to improve the outcomes needed for better analysis. Specifically, current processes such as the determination of field, planted, and harvested acreage will be standardized in order to accurately reconcile inputs and calculate yields. Methods for tracking harvest, not only by specific crop, but by individual field, are being evaluated and modified. TRICOR will reach out to several resources including the University of Tennessee Agriculture divisions to assist with best practices in row crop management.

DAIRY OPERATIONS

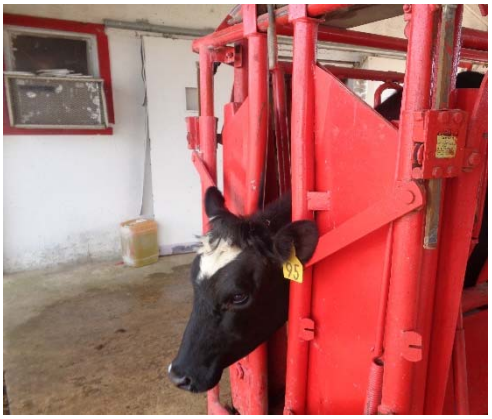
General Background

The Tennessee Rehabilitative Initiative in Correction Board (TRICOR) facilitates dairy operations at the farm near the Bledsoe County Correctional Complex in Pikeville, Tennessee. The farm maintains a herd of approximately 400 cows; 150 to 180 of the cows, on average, are online cows,[12] which the approximately 35 offenders who work at the farm milk twice per day. In addition, the offenders assist with the maintenance of dairy and farm equipment, as well as with the production and maintenance of 250 acres of corn and 250 acres of hay. The farm uses the corn and hay in the cows' feed mixture.

[12] Online cows are female cows that are currently producing milk.

Cook Chill Closure's Effect on Dairy Operations

Prior to Cook Chill's closure, the dairy farm produced raw milk, which TRICOR transferred to the Cook Chill facility in Nashville, Tennessee, for processing. TRICOR sold the processed milk to its Cook Chill customers and included it in the meal kits sold to the Department of Correction as part of the Standard Menu Program. TRICOR sold excess raw milk to the Dairy Farmers of America, a national cooperative that purchases raw milk and processes it to be sold as an array of dairy products on the open market. Although Title 18, *United States Code,* Chapter 85, Section 1761, prohibits the sale of prison-made goods on the open market, the code specifically exempts agricultural commodities. Additionally, Section 41-22-116(d), *Tennessee Code Annotated,* states, "The TRICOR board may contract with food processors for the purposes of processing and packaging agricultural products produced in whole or in part by inmates."



When TRICOR ceased operations at the Cook Chill facility in September 2016, it also ceased dairy processing operations. The offenders who were displaced by the closure transferred to other TRICOR-managed operations. Since Cook Chill's closure, TRICOR sells all raw milk to Dairy Farmers of America, which serves as the dairy farm's main revenue source. Dairy Farmers of America sets the price TRICOR receives, which varies due to market price volatility.

Dairy Feed

In addition to feeding the cows corn and hay, the farm workers add protein and energy pellets to the cows' feed. The proper mixture of good quality protein and energy pellets correlates to the amount of milk the cows may produce daily.

In prior years, TRICOR purchased separated protein and energy feed pellets that the farm workers hand mixed into feed. During our audit period, however, TRICOR began buying a pre-mixed protein and energy mash, thereby giving farm workers less control over the ratio of protein to energy. Based on discussions with farm management, limiting the farm workers' ability to customize the mixture of protein and energy in cow feed could result in lowered overall milk production over time. In June 2017, management once again began purchasing separated protein and energy pellets. Other environmental factors, such as area rainfall and average temperatures, may also affect the cows' ability to produce milk, thus impacting production levels.

Audit Results

1. **Audit Objective:** Did TRICOR make progress to determine the future of its dairy operations, whether within the state or with private entities?

   Conclusion: Management decided to sell raw milk produced by the farm to Dairy Farmers of America in the interim while they explore options for future

operations. The dairy operation, however, saw increasing losses in recent years, which raised concerns about its viability. See **Observation 1**.

2. Audit Objective: Did current dairy operations provide offenders with opportunities to engage in work activities that will help them obtain gainful employment post-release, even though TRICOR has ceased the dairy processing portion of its operations?

Conclusion: Current dairy operations provided offenders with opportunities to engage in work activities that will provide them with skills, such as quality control, equipment maintenance, and operations management, to help them obtain gainful employment post-release. Offenders whose jobs were displaced by the closure of Cook Chill were transferred to other TRICOR operations to ensure they remained active in work activities.

Methodology To Achieve Objectives

To obtain an understanding of TRICOR's dairy operations and the impact of the closure of Cook Chill, and to determine management's progress to determine the future of TRICOR's dairy operations, we interviewed key personnel and performed a walkthrough of the dairy operations at the Bledsoe County Correctional Complex. We analyzed milk production from July 2015 through December 2016, and we analyzed revenues from June 2015 through February 2017. We interviewed offenders working on the complex's farm to understand the skills they were learning through their work and how the closure of Cook Chill affected their jobs. We obtained and reviewed a list of offenders who worked at the Cook Chill facility to determine how TRICOR handled the offenders' job displacement when they closed the Cook Chill facility.

Observation 1 - Continued losses for the dairy operation at the Bledsoe County Correctional Complex warrant management's continued attention and consideration

Section 41-22-403(2)(B), *Tennessee Code Annotated,* charges the Tennessee Rehabilitative Initiative in Correction Board (TRICOR) with offsetting the costs of incarceration by generating revenue through the sale of offender-produced goods and business services as part of its mission. The intent is that TRICOR should operate as a self-sustaining agency without the need for state-appropriated funds. The dairy farm operation at the Bledsoe County Correctional Complex, however, experienced increasing net losses over the last three fiscal years, which, at its face, is contrary to the self-sustaining aspect of TRICOR's mission. See Table 3 for the net losses by fiscal year. TRICOR, as a whole, has managed to offset these losses with other profitable business lines.

Table 3
Dairy Operations Losses by Fiscal Year
(unaudited)

Fiscal Year	Net Loss
2015	($226,249)
2016	($360,666)
2017 (as of May 31, 2017)	($552,850)

Source: TRICOR unaudited income statements for the Bledsoe County Correctional Complex.

While TRICOR as a whole currently operates as a self-sufficient agency, management should remain vigilant as they consider the future of unprofitable operations, such as the dairy farm, to ensure monetary losses do not outweigh the benefits of continuing the operation. TRICOR management was aware of the increasing net losses and determined the losses were due to lower milk production over time. Farm management attributed the lower milk production to three main factors:

- TRICOR's decision to reduce the overall size of the herd (from approximately 500 to approximately 400 total cows);
- management signing a contract and purchasing the pre-mixed protein and energy mash instead of separated protein and energy pellets, prohibiting the farm workers' ability to tailor the protein and energy mixture in the cows' feed to enhance milk production; and
- severe droughts in East Tennessee, which affected the cows' comfort and therefore affected their milk production.

To mitigate the factors that likely caused the lower milk production, TRICOR management solicited a new feed contract in which the protein and energy parts of the feed are once again separated, giving the workers control over the feed's protein-to-energy ratio, which can help increase milk production. Management is also considering capital improvements to the farm to contribute to the cows' comfort. As of June 30, 2017, they have not decided on the improvements to make. We recommend management continue to research opportunities to increase milk production and to mitigate losses associated with the dairy operation.

MANAGEMENT'S ANNUAL RISK ASSESSMENT

Section 9-18-104, *Tennessee Code Annotated,* requires the head of each state agency and higher education institution to assess the risks and systems of internal control in accordance with the guidelines established by the Department of Finance and Administration, in consultation with the Comptroller of the Treasury. According to Section 9-18-102,

> The objectives of the annual risk assessment are to provide reasonable assurance of the following:

(1) Accountability for meeting program objectives;

(2) Promoting operational efficiency and effectiveness;

(3) Improving reliability of financial statements;

(4) Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and

(5) Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

Section 9-18-104 also requires the head of each state agency and higher education institution to submit an annual Financial Integrity Act report by December 31 of each calendar year to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury. In this report, agency or institution management 1) acknowledges responsibility for establishing, implementing, and maintaining an adequate system of internal control and 2) states whether an assessment of risk performed by the agency or institution provides reasonable assurance of compliance with the objectives of the assessment as specified in statute. In the event that the agency's or institution's assessment does not provide reasonable assurance of compliance with the objectives of the assessment as stated in the statute, the report is to include a corrective action plan.

Audit Results

1. Audit Objective: Did management have a process to assess the agency's risks of errors, fraud, waste, and abuse?

Conclusion: Based on interviews and review of documentation, management had a formal process to assess the agency's risks of errors, fraud, waste, and abuse.

2. Audit Objective: Did management include risks for each operation, as well as risks related to the prior audit findings?

Conclusion: Based on our review of TRICOR's 2015 and 2016 risk assessments, management included risks for each operation, as well as risks related to the prior audit findings.

3. Audit Objective: Did management submit its complete Financial Integrity Act packet in accordance with statute?

Conclusion: Management submitted its complete Financial Integrity Act packet in accordance with statute.

Methodology To Achieve Objectives

To gain an understanding of TRICOR's risk assessment process, we interviewed appropriate agency personnel and documented management's process for preparing the risk

assessment. We reviewed the 2016 and 2015 risk assessments, and we compared them with the 2014 risk assessment and the prior audit findings. We also reviewed the Comptroller of the Treasury's records to determine the date TRICOR submitted the risk assessments.