



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**DOUGLAS HENRY STATE MUSEUM  
COMMISSION  
Including  
Tennessee State Museum**

**Performance Audit Report**

September 2015

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**Justin P. Wilson, Comptroller**



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September 21, 2015

The Honorable Ron Ramsey  
Speaker of the Senate  
The Honorable Beth Harwell  
Speaker of the House of Representatives  
The Honorable Mike Bell, Chair  
Senate Committee on Government Operations  
The Honorable Jeremy Faison, Chair  
House Committee on Government Operations  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

Representative Steve McDaniel  
Deputy Speaker, House of Representatives  
Chair, Douglas Henry State Museum  
Commission  
18 Legislative Plaza  
Nashville TN 37243  
and  
Ms. Lois Riggins-Ezzell,  
Executive Director  
Tennessee State Museum  
505 Deaderick Street  
Nashville, Tennessee 37243-1120

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period January 1, 2014, through April 30, 2015.<sup>1</sup> This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

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

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

Sincerely,

Deborah V. Loveless, CPA, CGMA  
Director

DVL/jw  
15/042

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<sup>1</sup> We expanded and contracted our audit scope as necessary to respond to allegations received and to avoid duplicating work included in other Office of the Comptroller of the Treasury reports, described in the Prior Audit Findings section on page 6.

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

**Performance Audit  
Douglas Henry State Museum Commission  
Including  
Tennessee State Museum  
September 2015**

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## AUDIT SCOPE

We have audited the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period January 1, 2014, through April 30, 2015.<sup>2</sup> Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the Douglas Henry State Museum Commission and, specifically for the Tennessee State Museum, the areas of payroll and human resources, inventory, information systems, expenditures, and revenues. The Douglas Henry State Museum Commission and Tennessee State Museum management are responsible for establishing and maintaining effective internal control and for complying with applicable laws and regulations.

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.

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<sup>2</sup> We expanded and contracted our audit scope as necessary to respond to allegations received and to avoid duplicating work included in other Office of the Comptroller of the Treasury reports, described in the Prior Audit Findings section on page 6.

## CONCLUSIONS

### Audit Findings

**The Tennessee State Museum management's hiring practices raised questions about an employee's qualifications, and the museum's background check procedures did not sufficiently mitigate risks emerging from prior Office of the Comptroller of the Treasury reports**

Throughout our audit, we received numerous allegations concerning management's hiring practices. Based on our examination of certain employees' personnel records, we found one instance where museum management hired an employee who did not meet all of the position's job requirements. In addition, despite taking steps toward requiring background checks for positions involved in collections and fiscal functions, museum management had not attached a background check to an Administrative Services Assistant 2 position formerly held by an employee who was terminated after a Comptroller investigation revealed that she stole from the museum (page 22).

**Museum management had not developed and implemented adequate internal controls over employees' time and attendance**

We identified several internal control weaknesses over employee time and attendance. For example, museum personnel did not maintain a record of regular work schedules or hours worked each day; the time keeper entered time for all museum employees and frequently performed all time approvals, including Deputy Director approval; and management did not have procedures in place for telecommuting (page 29).

**Despite implementing a reconciliation process to address fraud risks identified in an investigations report, control deficiencies within the reconciliation process still exist\***

In response to an investigations report issued by the Office of the Comptroller of the Treasury, museum management implemented two internal controls in their purchasing process. Our work, however, revealed that control deficiencies remained (page 37).

**Tennessee State Museum management and staff did not properly document approvals and authentication information before acquiring items for its collection; furthermore, museum management and staff did not always adhere to the purchasing guidelines outlined in the *Tennessee State Museum Collections Manual*\***

Our testwork revealed that museum management did not always comply with its own internal guidelines. We found issues involving the absence of justification forms, documented approvals, and authenticity documentation for purchases and donations (page 40).

\* This finding is repeated from the prior audit.

**Water problems within the James K. Polk Cultural Center pose a threat to the Tennessee State Museum’s artifacts that are on display or housed in storage**

Based on our inquiries with museum staff, the museum has experienced multiple instances in recent years when artifacts on display and the storage areas housing artifacts were exposed to water problems. Specifically, museum management provided, or we observed firsthand, examples of water damage throughout the museum and its offices; the earliest example dates back to 2003 (page 48).

**Tennessee State Museum management lacked internal controls to ensure the security of the Tennessee State Museum Foundation’s alcoholic beverages stored on-site, increasing the risk of theft**

Based on our observations and inquiries with applicable museum personnel, we noted multiple internal control deficiencies related to the failure to physically safeguard the alcoholic beverage inventory housed at the museum; maintain adequate recordkeeping of the inventory; and segregate, and assign back-up employees for, duties which involve the inventory (page 51).

**The Tennessee State Museum did not provide adequate internal controls in four specific areas**

The Tennessee State Museum did not design and monitor internal controls in four specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and the inability to continue operations (page 56).

**Observations**

The following topics did not warrant findings but are included in this report because of their effect on the operations of the Douglas Henry State Museum Commission, including the Tennessee State Museum, and the citizens of Tennessee: the Douglas Henry State Museum Commission did not ensure that it appropriately developed conflict-of-interest forms and procedures, and members did not follow established internal policy by completing annual conflict-of-interest forms (page 10); the Douglas Henry State Museum Commission did not follow quorum standards (page 12); the Douglas Henry State Museum Commission Audit Finance Committee had not yet created its charter, developed a fraud reporting process, or reviewed management’s risk assessment (page 15); and the Tennessee State Museum lacked adequate controls for using the Tennessee State Museum Foundation credit card and did not always comply with statewide travel regulations (page 59).

**Performance Audit**  
**Douglas Henry State Museum Commission**  
**Including**  
**Tennessee State Museum**

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**Performance Audit  
Douglas Henry State Museum Commission  
Including  
Tennessee State Museum**

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**INTRODUCTION**

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**PURPOSE AND AUTHORITY FOR THE AUDIT**

This performance audit of the Douglas Henry State Museum Commission, which oversees the Tennessee State Museum, was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-237, the Douglas Henry State Museum Commission is scheduled to terminate June 30, 2016. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the Douglas Henry State Museum Commission should be continued, restructured, or terminated.

**ORGANIZATION AND STATUTORY RESPONSIBILITIES**

Douglas Henry State Museum Commission

*General Background*

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

*Composition*

The Douglas Henry State Museum Commission consists of 13 voting members and the executive director of the museum (ex officio non-voting member). Effective July 1, 2015, the commission also includes the president of the Tennessee Historical Society or his or her designee as an ex officio non-voting member. The 13 voting members appointed or serving by virtue of position are as follows:

- two members of the commission are appointed by the Speaker of the House (four-year terms);
- two members are appointed by the Speaker of the Senate (four-year terms);

- six members are appointed by the Governor (three-year terms);
- one member is jointly appointed by the Speaker of the Senate and the Speaker of the House (three-year term);
- one member is the Chair of the Senate Finance, Ways and Means Committee or his or her designee; and
- one member is the Chair of the House of Representatives Finance, Ways and Means Committee or his or her designee.

### *Mission*

Under Section 4-20-304, *Tennessee Code Annotated*, the museum commission is authorized and empowered to oversee the operations of the museum, employ an executive director and any other expert it deems necessary, promulgate rules and regulations for operation and administration of the museum, and otherwise be the sole governing authority of the state museum. The commission’s mission, therefore, is to

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

### Tennessee State Museum

#### *Mission and Organizational Structure*

The mission of the Tennessee State Museum is to “procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans, and to provide exhibitions and programs for the educational and cultural enrichment of the citizens of the state.” The museum is organized into seven departments, each headed by a director (labeled “chief” on the organizational chart) who reports to the museum’s executive director. For administrative purposes, six of the department directors report to the deputy director, who heads the Administration Department. The executive director, in turn, reports to the Douglas Henry State Museum Commission.

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

The Museum Services Department is responsible for a variety of museum operations and coordination of special projects. The Director of Museum Services serves as the liaison to the Nashville Civil Rights Museum. She also conducts research related to objects offered for sale or donation to the museum and assists with community and educational outreach, as needed.

The Collections Department manages the museum's collection and curatorial work, which includes a statewide traveling exhibits program and field service work with other museums and related institutions in Tennessee.

The Exhibits Design and Fabrication Departments are responsible for planning and implementing all exhibit installation activities, as well as overseeing the museum's physical facility construction and renovation projects.

The External Affairs Department, led by the Chief of Development/Director of External Affairs, manages public relations, advertising, website maintenance, social media, and fundraising events. The Chief of Development also serves as the liaison for all Tennessee State Museum Foundation activities. The Tennessee State Museum Foundation is a nonprofit 501(c)(3) corporation, whose sole purpose is to support the activities and programs of the Tennessee State Museum through a statewide membership program, fundraising activities, grants management, and a retail operation (Section 4-12-111, *Tennessee Code Annotated*).<sup>3</sup>

The Public Programs Department is responsible for the museum's public outreach, including tours of the Tennessee State Capitol, museum programs for school groups, education programs, the museum's Tennessee history website, [www.TN4ME.org](http://www.TN4ME.org), museum floor management, and the museum's presence at festivals and other public events.

### *Locations and Collections*

The museum occupies three floors covering approximately 120,000 square feet in the James K. Polk Cultural Center as well as 7,000 square feet in the War Memorial Building for the Military Museum. Museum management and staff administer the artifact collections at the James K. Polk and War Memorial Military Museum facilities, the artifact collection at the Governor's Executive Residence, and the artifact collection and tour programs at the Tennessee State Capitol. Additionally, the museum owns and oversees the artifacts and the lease of the Lorraine Motel<sup>4</sup> at the National Civil Rights Museum in Memphis and the artifacts at the Tennessee Sports Hall of Fame.

The museum's historical exhibitions displayed in the James K. Polk Cultural Center are divided into six sections: the First Tennesseans (prehistoric cultures), the Frontier, the Age of Jackson, Antebellum Tennessee, the Civil War and Reconstruction, and the New South. Additionally, the museum's collection of more than 150,000 artifacts contains items associated with famous Tennesseans such as Andrew Jackson, Daniel Boone, James K. Polk, Andrew Johnson, David Crockett, Sam Houston, Alvin York, Cordell Hull, Alex Haley, and Elvis Presley. The collections include art, political and social history, military history, science, and natural history.

The Military Museum exhibits that are displayed in the War Memorial Building focus on America's overseas conflicts, beginning with the Spanish-American War in 1898 and ending with World War II in 1945. The exhibits detail the beginnings of each war, major battles, and

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<sup>3</sup> We did not audit the Tennessee State Museum Foundation.

<sup>4</sup> The Lorraine Motel was the site of Martin Luther King, Jr.'s assassination.

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

### *Education*

The museum's educational offerings include exhibitions, resources, and programs to serve Tennessee's public and private schools through 12<sup>th</sup> grade, as well as home school students and groups. The service goals for the adult non-school public are to provide special programs that enrich the visitors' knowledge of the exhibitions and provide printed materials that meet a range of needs—family activity guides, special tours, seminars, workshops, and other activities. The museum also develops teacher workshops and in-service sessions that guide educators in using the museum as a classroom resource. The museum serves an estimated 100,000 visitors annually (139,338 in state fiscal year ended June 30, 2014), approximately 60% of which consist of school groups (see Appendix 5 on page 72).

### *Accreditation*

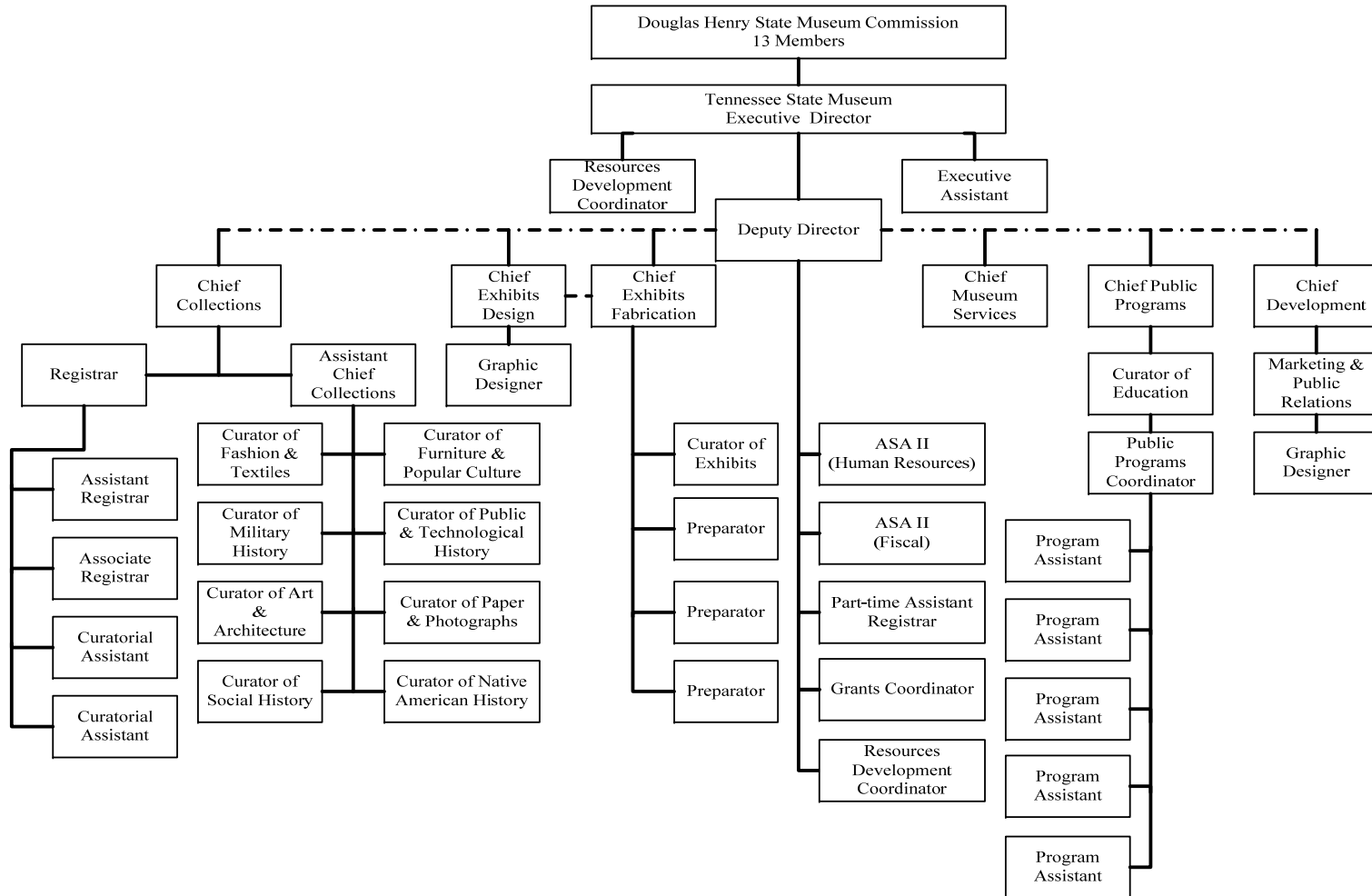
The Tennessee State Museum is an accredited member of the American Alliance of Museums (AAM) and adheres to the AAM's ethical and professional standards and practices.

The museum's business unit code in Edison<sup>5</sup> is 316.27. An organization chart of the Tennessee State Museum is on the following page.

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<sup>5</sup> Edison, which is maintained by the Department of Finance and Administration's Enterprise Resource Planning division, is the state's integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

# TENNESSEE STATE MUSEUM ORGANIZATIONAL CHART APRIL 2015



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## AUDIT SCOPE

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We have audited the Douglas Henry State Museum Commission, including the Tennessee State Museum, for the period January 1, 2014, through April 30, 2015.<sup>6</sup> Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the Douglas Henry State Museum Commission and, specifically for the Tennessee State Museum, the areas of payroll and human resources, inventory, information systems, expenditures, and revenues. The Douglas Henry State Museum Commission and Tennessee State Museum management are responsible for establishing and maintaining effective internal control and for complying with applicable laws and regulations.

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.

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## PRIOR AUDIT FINDINGS

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This is the first audit of the Douglas Henry State Museum Commission. The Office of the Comptroller of the Treasury issued a Special Report entitled “Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum” dated January 2011 that contained six findings, four of which directly related to the museum,<sup>7</sup> and an Investigations Report, dated August 20, 2014, which focused on alleged fraud committed by a museum employee and contained two findings. A follow-up of the prior audit findings related to the museum was conducted as part of the current audit.

### **RESOLVED AUDIT FINDINGS**

#### 2011 Special Report

The current audit disclosed that the Douglas Henry State Museum Commission and Tennessee State Museum management had corrected the previous audit findings concerning (a) controls over state telecommunications equipment and the use of state telephones and cellular

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<sup>6</sup> We expanded and contracted our audit scope as necessary to respond to allegations received and to avoid duplicating work included in other Office of the Comptroller of the Treasury reports, described in the Prior Audit Findings section on page 6.

<sup>7</sup> The remaining two findings exclusively center on the Tennessee State Museum Foundation, which we did not audit.

phones for personal calls and (b) management's failure to disclose and document a museum employee's criminal record.

#### August 2014 Investigations Report

The investigations report contained a finding about a cash shortage of at least \$61,892.94 resulting from inadequate controls over Enterprise CarShare program billings and signatory authority. The current audit disclosed that the Douglas Henry State Museum Commission and Tennessee State Museum management had corrected these deficiencies.

### **REPEATED AUDIT FINDINGS**

#### 2011 Special Report

The special report also contained a finding noting the need to strengthen controls over items purchased for the museum's collection. This finding has not been resolved and is repeated in the applicable section of this report. Because museum management made some improvement regarding the prior finding involving two museum employees who failed to reimburse the Tennessee State Museum Foundation for foundation-paid travel expenses after receiving a travel reimbursement from the state, we have reported an observation, instead of a finding, in the applicable section of this report.

#### August 2014 Investigations Report

Additionally, the investigations report contained a finding concerning museum management's failure to adequately reconcile purchases with inventory records. This finding has not been resolved and is repeated in the applicable section of this report.

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### **DOUGLAS HENRY STATE MUSEUM COMMISSION OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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In 2009, the General Assembly transferred oversight of the Tennessee State Museum from the Tennessee Arts Commission to the newly established Douglas Henry State Museum Commission. In accordance with Section 4-20-301, *Tennessee Code Annotated*, the commission consists of 13 voting members, 6 of whom must participate to constitute a quorum. The commission members elect one of their own to serve as Chair. While Section 4-20-302, *Tennessee Code Annotated*, prohibits commission members from receiving compensation for their services, this statute does permit reimbursement for "actual and necessary expenses incurred in the performance of their duties," such as reimbursement for travel expenses in accordance with statewide policy. Section 8-44 additionally promulgates public notice requirements applicable to commission meetings.



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

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

Along with the standing committees, the commission created a Collections Acquisitions Committee to guide the acquisition, preservation, and availability of artifacts and a By-Laws/Communications Committee to consider amendments to the bylaws. The commission also developed internal operating policies that govern the museum's Executive Director's performance evaluation and commission members' conflicts of interest, among other areas.

Our objectives in reviewing the Douglas Henry State Museum Commission were to determine whether

- the commission's policies and procedures adequately addressed the proper completion of conflict-of-interest disclosure forms;
- commission members signed conflict-of-interest disclosure forms on an annual basis in accordance with internal policy;
- in its meetings, the commission achieved the quorum standards promulgated in *Tennessee Code Annotated*;
- the commission met the public notice requirements for meetings established in state law and its own bylaws;
- the commission's composition mirrored the requirements delineated in state law;
- commission members' travel expenditures complied with applicable travel regulations and were reasonable and necessary;
- the Commission Chair completed the Executive Director's performance evaluation in accordance with both internal and statewide policy; and
- the commission's Audit Finance Committee fulfilled the state laws requiring an approved charter, a fraud reporting process, and a risk assessment review.

We gained an understanding of each area under audit by interviewing commission members and key museum personnel. We analyzed the commission's instructions for completing conflict-of-interest forms. We also requested the forms signed by all 13 commission members during calendar year 2014, reviewing both the 11 forms already on hand and the remaining 2 forms received following our inquiries.

For the quorum, public notice, composition, and Audit Finance Committee objectives, we read applicable *Tennessee Code Annotated* provisions. Additionally, we obtained the quorum standard, public notice requirement, and Executive Director evaluation sections of the

commission's bylaws. We evaluated whether the Douglas Henry State Museum Commission's bylaws matched state law with regard to quorum standards. For all four full commission meetings held from January 1, 2014, through December 31, 2014, we recorded the number of commission members in attendance and assessed whether the commission had a quorum present. We discussed electronic meeting participation and public notice requirements with the Office of the Comptroller of the Treasury's Open Records Counsel.

For the full commission meetings and 7 committee meetings (11 meetings total) from January 1, 2014, through December 31, 2014, we inspected agendas and minutes to determine whether the agendas contained sufficient detail, the commission only discussed matters listed on the agenda, and the commission provided adequate meeting notice to the public. Furthermore, we compared the commission's actual composition with the corresponding *Tennessee Code Annotated* requirements.

We obtained the State of Tennessee's travel regulations. Using a calendar year 2014 expenditure listing pulled from Edison, we extracted all 24 travel claim payments made to commission members, totaling \$2,715. We tested all of the commission member travel expenses for compliance with the state's travel regulations, as well as reasonableness and necessity.

We examined the Department of Human Resources' policy governing performance evaluations. We then obtained and analyzed the Executive Director's performance evaluation for the period January 1, 2014, through December 31, 2014. Regarding the Audit Finance Committee, we attended the April 6, 2015, and May 19, 2015, commission meetings describing the development of a charter and studied available drafts. We accessed the museum's risk assessment dated December 15, 2014, as well.

Based on the procedures performed, we determined that

- the commission did not ensure that it appropriately developed conflict-of-interest forms and procedures (see Observation 1);
- commission members did not always sign conflict-of-interest forms annually (see Observation 1);
- for one meeting, the commission made decisions without a quorum present (see Observation 2), and additionally, the standards promulgated in the commission's bylaws conflicted with those in *Tennessee Code Annotated*;
- the commission followed public notice requirements;
- the commission met its composition requirements;
- commission members' travel expenditures were reimbursed in accordance with travel regulations and were reasonable and necessary;
- the Commission Chair completed the Executive Director's performance evaluation; and

- the Audit Finance Committee had not established a charter or a fraud reporting process, and furthermore, the committee did not review the museum’s risk assessment (see Observation 3).

**Observation 1 – The Douglas Henry State Museum Commission did not ensure that it appropriately developed conflict-of-interest forms and procedures, and members did not follow its established internal policy by completing annual conflict-of-interest forms**

### Background and Criteria

The members of the Douglas Henry State Museum Commission are expected to disclose potential conflicts of interest as an essential method to maintain public trust and ensure the proper performance of government. Policy 12.0, “Commission Members’ Code of Conduct,” within the commission’s *Operating Policies* requires members to “submit an annual statement verifying that they have read and understand the Commission Members’ Code of Conduct.” According to the Administrative Services Assistant 4 (ASA4), who serves as the Tennessee State Museum’s liaison to the Douglas Henry State Museum Commission, the verification forms are the only conflict-of-interest related forms completed by the commission. In signing this form, commission members verify they have read and understood the Code of Conduct.

The Code of Conduct specifies, “Commission members must avoid conflict of interest with respect to their fiduciary responsibility.” This code also instructs commission members on what actions to take regarding potential conflicts, including informing the Executive Director of “their memberships in all arts and culture-related organizations” and roles as “officer, director, or other special relationship with any such organization.” In addition, the Code of Conduct mandates that commission members abstain from voting and related deliberation when an issue before the commission represents an unavoidable conflict for the member.

### Deficiencies Identified and Explanations Provided

During our testwork, we determined that the Commission Chair did not assume or delegate responsibilities to ensure all commission members completed the conflict-of-interest verification forms and that the verification forms were sufficiently designed. The ASA4 disclosed that a prior Commission Chair chose not to officially assign an individual responsible for such procedures. She added that the commission members did not create the verification forms until after they chose the current Commission Chair and had not completed any conflict-of-interest related statements until the June 9, 2014, commission meeting.

1. Two of 13 commission members (15%) did not complete the verification forms in 2014. After we questioned these commission members, they signed the forms. One commission member explained that he intended to obtain clarification on the *Operating Policies* but misplaced and forgot about the form. The second commission member stated he posed questions regarding the form to the ASA4 but never had them answered. The form indicates that the commission member had read and

understood the Code of Conduct; however, this commission member indicated on his signed form that he was not certain he understood every item in the code.

Furthermore, the ASA4 lost one of the remaining 11 commission members' first signed form and, following our inquiries, requested that he complete another form.

2. The Code of Conduct verification forms did not provide commission members with an area to disclose potential conflicts. The ASA4 reported that the commission members were unaware they needed to make these disclosures.

After our discussion of these problems, the commission developed a new form that requires commission members to disclose in writing the "member's role as an officer, director, or other special relationship with any such organization." The commission also amended Policy 12.0 of the *Operating Policies* to require the Chair of the commission or his or her designee to "ensure the completion and collection of the Conflict of Interest Code of Conduct forms by issuing new forms to each existing and newly appointed member at the first Commission meeting of each fiscal year."

#### Management's Remarks

From the inception of the Commission, through May, 2015, Commission Operating Policy No. 12.0 required Commission Members "to submit an annual statement verifying that they have read and understand the Commission Members' Code of Conduct" which code is contained in Operating Policy No. 12.0. The Commission Chair who served from the Commission's inception through December 9, 2013, neither prepared, signed, nor collected annual statement forms. The archived minutes reflect that the former Commission Chairman was involved with the adoption of the Operating Policies, including the Ethics Code from the inaugural commission meeting in 2010 until their adoption and that he did not question them at Commission meetings or seek advice of the Attorney General's Office regarding any difficulty that he had in understanding the Code of Conduct. It was not until 2014, when the current Commission Chair sought to collect annual statements that the former Commission Chairman claims to have voiced his inability to understand the Code of Conduct to the Museum Director. The former Commission Chairman and former Commissioner were the only two Commission Members who failed to execute the code of conduct in 2014. All other members promptly complied with the Operating Policy by signing and returning the statement.

In February, 2015, during the current audit, the former Commission Chairman and the former Commissioner finally executed the 2014 annual statement. The former Commission Chairman noted on the form that he was not sure that he understood the Code of Conduct.

The annual form drafted for 2014 complied in all respects with the version of Operating Policy No. 12.0 in effect at that time, and is an adequate form from a legal perspective. It was drafted by the Attorney General's Office at the request of the Museum Staff. The Museum is unaware of any policy or provision of law which required the 2014 annual statement to include an area to disclose potential conflicts, or to include an affirmative statement that the Commission Members agree to comply with Operating Policy No. 12.0. The Policy merely required

execution of an annual statement providing that the Commission Member has read the policy and understands it. The form utilized in 2014 complied with the policy in effect at that time.

At the request of the Comptroller's Office, the Commission voted to amend Policy 12.0 in May, 2015, to include more language regarding the Code of Conduct, and now utilizes a new form which complies with the amended Code of Conduct contained in Policy 12.0.

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**Observation 2 – The Douglas Henry State Museum Commission did not follow quorum standards**

**Background**

The Douglas Henry State Museum Commission consists of 13 voting members who oversee the operations and strategic direction of the Tennessee State Museum. The commission bylaws stipulate that members should hold quarterly meetings of the full commission. The commission also consists of several committees—Collections Acquisitions, Nominating, By-Laws/Communications, and Audit Finance—which meet throughout the year. Our testwork on the commission meetings revealed violations of quorum requirements.

**Discrepancy in Quorum Standards**

While performing testwork, we noted a discrepancy between the commission's quorum number established in state law and the commission's internal bylaws. Section 4-20-301, *Tennessee Code Annotated*, states, "A quorum shall be six (6) voting members of the commission." According to Article IV of the Douglas Henry State Museum Commission By-Laws, however, "At any meeting of the commission, seven (7) voting commission members shall constitute a quorum for the transaction of business, as specified in Section 4-20-301 of the Tennessee Code Annotated."

Based on discussion with the Administrative Services Assistant 4 who serves as the liaison between the Tennessee State Museum and the Douglas Henry State Museum Commission and review of the meeting minutes and transcript, the commission established the quorum number as seven (a majority) during the July 15, 2010, By-Laws/Communications meeting since its membership had grown from 11 to 13 members. Commission members were not aware this requirement conflicted with Section 4-20-301.

Without prompting from our audit staff, the Commission Chair discussed the quorum standard discrepancy during the full commission meeting on April 6, 2015. Representatives from the Attorney General's Office present requested additional time to conduct research. The Attorney General's Office informed the commission on May 12, 2015, that state statute superseded the commission bylaws and recommended an update to the bylaws.

## Quorum Standards Not Met

We reviewed all four full Douglas Henry State Museum Commission meetings held for the period January 1, 2014, through December 31, 2014, and found that for one meeting, the commission did not meet quorum standards required by either state law or internal bylaws. Specifically, the full commission meeting on March 3, 2014, had five members physically present and three members present by electronic participation (telephone), as described in the meeting minutes. During that meeting, the commission approved

1. the minutes to the December 9, 2013, commission meeting; and
2. a motion to require background checks on future museum hires pending authorization by the Department of Human Resources' Legal Division and other legal counsel.

Section 8-44-108, *Tennessee Code Annotated*, details the following electronic participation standards:

(b)(1) A governing body may, but is not required to, allow participation by electronic or other means of communication for the benefit of the public and the governing body in connection with any meeting authorized by law; provided, that a physical quorum is present at the location specified in the notice of the meeting as the location of the meeting.

(b)(2) If a physical quorum is not present at the location of a meeting of a governing body, then in order for a quorum of members to participate by electronic or other means of communication, the governing body must make a determination that a necessity exists. Such determination, and a recitation of the facts and circumstances on which it was based, must be included in the minutes of the meeting.

(b)(3) If a physical quorum is not present at the location of a meeting of a governing body other than a state debt issuer, the governing body other than a state debt issuer must file such determination of necessity, including the recitation of the facts and circumstances on which it was based, with the office of secretary of state no later than two (2) working days after the meeting. . . .

(c)(2) Notices required by the Open Meetings Law, or any other notice required by law, shall state that the meeting will be conducted permitting participation by electronic or other means of communication.

Section 8-44-108(a)(3) additionally states, “‘Necessity’ means that the matters to be considered by the governing body at that meeting require timely action by the body, that physical presence by a quorum of the members is not practical within the period of time requiring action, and that participation by a quorum of the members by electronic or other means of communication is necessary.”

Based on our examination, the commission did not

- include the necessity determination in its meeting minutes;
- file the determination with the Secretary of State; or
- announce as part of its meeting notice that electronic participation was permitted.

The Administrative Services Assistant 4 told us that although she records member attendance, she was unaware of the electronic participation guidelines.

According to the Office of the Comptroller of the Treasury's Open Records Counsel, if a governing board or commission requires a quorum to take action, no decisions can be made in a meeting at which a quorum is not present. The Tennessee Open Meetings Act (Sections 8-44-101 et seq., *Tennessee Code Annotated*) does not specify what is required for a quorum, but the Act defines a "meeting" as "the convening of a governing body of a public body for which a quorum is required in order to make a decision or to deliberate toward a decision on any matter." If a governing board is subject to the Open Meetings Act and took action at a meeting where a quorum was not present, any discussions, decisions, and votes by the board at that meeting would become void and of no effect (Section 8-44-105). A citizen could bring action pursuant to Section 8-44-106 and, if the court found the meeting was not conducted in accordance with the Act, the court could issue injunctions, impose penalties, and otherwise enforce the Act. In this situation, the court would monitor the commission for a year and require semi-annual written reports.

At the September 8, 2014, meeting, the commission approved a motion to work with the Department of Human Resources to develop background check policies for positions that work with money and collections. In addition, following discussion with us, the commission reapproved the December 9, 2013, minutes at the May 19, 2015, meeting, which had a quorum present.

All commission members should read and understand the *Tennessee Code Annotated* provisions that govern them. The Commission Chair should ensure that state laws, including those involving quorum requirements, are followed and that bylaws do not create conflicts. The commission should direct requests for clarification about Tennessee Open Meetings Act requirements to the Office of the Comptroller of the Treasury's Open Records Counsel.

#### Management's Remarks

#### ***Discrepancies in Quorum Standard***

The Audit report states that the Commission amended By-Laws on July 15, 2010 to increase the quorum number from six (6) to seven (7); however, there was not an amendment to the By-Laws in 2010. In fact, the original By-Laws were adopted in 2010, and the records reveal that the number seven (7) was mentioned by the then Commission Chairman (who was also the Chairman of the By-Laws Committee) and that seven (7) was included in the original By-Laws. After the current Commission Chair began his term, the conflict between the By-Laws and the

Code was first discussed with the Attorney General's Office, which researched the issue and prepared a proposed amendment to the By-Laws to reduce the quorum number from seven (7) to six (6) in order to bring the By-Laws into compliance with the Tennessee Code.

### *Quorum Standard Not Met*

The Commission agrees with the Auditor's Observation that on March 3, 2014, a full commission meeting proceeded without a physical quorum in attendance (five members were present rather than the six required by the Tennessee Code). However, it is noted that three members were present telephonically, so there was a quorum present if telephonic participation is considered. The only defect in the meeting was the failure to comply with the section of the Open Meetings Act requiring additional documentation for conducting a meeting when a physical quorum was not present. The March 3, 2014 meeting was the first meeting for the new Commission Chair and the state offices were closed due to snow and ice.

The Museum points out that although its failure to record additional information about the necessity to proceed without a physical quorum on March 3, 2014 is a technical violation of the Open Meetings Act, the meeting was not conducted without a quorum. The Audit Report states that if a board subject to the Open Meetings Act "took action at a meeting where a quorum was not present, any discussions, decisions, and votes by the board at that meeting would become void and of no effect." The Museum would like to point out that a violation of the quorum necessity requirement applicable to telephonic participation may not be treated in the same fashion as a failure to provide adequate public notice of a meeting or failure to have a quorum at all, and may not have resulted in the voiding of the meeting if it had been legally challenged.

At the March 3, 2014 Commission meeting, the Commission did not vote to require background checks on future museum hires; but rather, voted to require background checks on future museum hires **if** attorneys from the Department of Human Resources and other counsel recommended said checks. Any defect in the necessity documentation for the March 3, 2014 Commission meeting was cured when the full commission, at the May 19, 2015 Commission meeting which was held pursuant to notice and with a physical quorum present, reconsidered the items from the March 3, 2014 meeting and voted on those matters.

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### **Observation 3 – The Douglas Henry State Museum Commission Audit Finance Committee had not yet created its charter, developed a fraud reporting process, or reviewed management's risk assessment**

The Douglas Henry State Museum Commission consists of two standing committees, the Nominating Committee and the Audit Finance Committee. The Audit Finance Committee oversees Tennessee State Museum top management, ensuring that they effectively manage the museum, which includes the safeguarding of assets and ensures accuracy/completeness of financial information. While performing testwork, we found that the Audit Finance Committee



did not comply with the state laws governing the following areas: committee charter, fraud reporting process, and risk assessment review.

#### No Approved Committee Charter

Section 4-35, *Tennessee Code Annotated*, constitutes the Audit Committee Act of 2005. Section 4-35-103 states,

- (a) An audit committee created in pursuant to this chapter shall develop a written charter addressing the audit committee's purpose, powers, duties, and mission.
- (b) The comptroller of the treasury shall establish guidelines for creation of an audit committee charter and shall review the proposed charter to determine whether the charter contains the minimum necessary requirements.

Despite this statute, the Audit Finance Committee did not create and submit a charter for approval to the Office of the Comptroller of the Treasury.

The former Audit Finance Committee Chair<sup>8</sup> and the museum Deputy Director both asserted that they were unaware of the requirement to develop an audit committee charter. Without an established charter, the committee lacks a clear direction for completing its duties. On May 19, 2015, following our disclosure of this issue, commission members drafted and voted to submit the charter to the Office of the Comptroller of the Treasury for approval. The Deputy Director officially submitted the charter on June 11, 2015.

#### Absence of Fraud Reporting Process

Our testwork further revealed that the Audit Finance Committee had not established policies and procedures for fraud reporting, as required by state law. Section 4-35-107, *Tennessee Code Annotated*, prescribes that “[a]n audit committee created pursuant to this chapter shall establish a process by which employees, taxpayers, or other citizens may confidentially report suspected illegal, improper, wasteful, or fraudulent activity.” The statute also requires an audit committee chair to report to the Comptroller of the Treasury any such activity he or she believes may have occurred.

Both the former and current Audit Finance Committee Chairs expressed a lack of knowledge of the committee's statutory responsibility to establish a fraud reporting process. Anyone suspecting fraud, waste, abuse, and illegal or improper activity should possess the ability to report these matters directly to the Audit Finance Committee, particularly if the suspicions involve top management. Without an established process for such reporting and dissemination of this process, individuals may be unaware of how to—or may be unlikely to—communicate allegations, preventing the detection of improper acts.

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<sup>8</sup> The Douglas Henry State Museum Commission Chair appointed a new Audit Finance Committee Chair on January 12, 2015.

## Lack of Risk Assessment Review Process

Another weakness illuminated by our testwork encompasses the Audit Finance Committee's failure to review the Tennessee State Museum's annual risk assessment, internal control structure, or compliance with laws and regulations. Section 4-3-105, *Tennessee Code Annotated*, lists "evaluating management's assessment of the body's system of internal controls" as one audit committee responsibility.

Additionally, the Office of the Comptroller of the Treasury's website contains guidance on the requirements of the Audit Committee Act of 2005. The document "Overview of the Key Responsibilities of the Board, Audit Committee and Top Management" states the following with respect to the entity's risk assessment:

Although the audit committee is not responsible for the execution of the risk assessment, the audit committee is responsible for reviewing the details of the risk assessment prepared by management. The board, being the body that has ultimate responsibility for the agency, has the duty to ensure that management's risk assessment is adequate, in its documentation, its breadth and its conclusions. The board meets that duty through the efforts of the audit committee. The audit committee should take whatever steps the members of the committee consider necessary to obtain a sufficient understanding of the risk assessment. The audit committee should independently determine that the risk assessment is adequate and appropriate. In exercising this responsibility, the audit committee should meet with top management and personally review the documentation of the risk assessment. Members of the audit committee should formally sign off on the documentation, acknowledging their approval of the assessment, and document both their discussion with top management and their comments about the risk assessment.

Based on discussion with the former Audit Finance Committee Chair, the committee was unaware that museum management completes an annual risk assessment in accordance with Section 9-18-102, *Tennessee Code Annotated*. The committee received the museum's 2014 risk assessment in April 2015 (after our inquiries); however, this was the first time the committee had received a copy of the museum's risk assessment or reviewed the museum's internal control structure or compliance with laws and regulations. Museum management filed the risk assessment with the Office of the Comptroller of the Treasury on December 18, 2014.

The commission, as the body with ultimate responsibility for the museum, has the duty to ensure the adequacy of management's risk assessment in its documentation, its breadth, and its conclusions. Without review of the risk assessment by the Audit Finance Committee, the commission cannot confirm that museum management has fulfilled its responsibility to identify risks and that existing internal controls are adequate to address the risks identified. If the committee members have no mechanism for reviewing the actions of museum management in designing, implementing, and monitoring internal controls, they cannot provide effective oversight.

The Audit Finance Committee should develop policies and procedures by which museum employees or other citizens may confidentially report suspected illegal, improper, wasteful, or fraudulent activity. The committee should then communicate the established process to museum employees and the general public. If the committee receives allegations of activities that the Audit Finance Committee Chair believes may have occurred, he or she should report the information to the Office of the Comptroller of the Treasury.

The Audit Finance Committee should also implement a process to review annually the museum's risk assessment and entire internal control system.

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## TENNESSEE STATE MUSEUM OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### **PAYROLL AND HUMAN RESOURCES**

The *Douglas Henry State Museum Commission Operating Policies*, Policy 2.0, requires that the Tennessee State Museum's Executive Director execute human resources functions in accordance with Tennessee Department of Human Resources (DOHR) policies. DOHR has established numerous statewide policies that govern areas such as workplace discrimination and harassment, attendance and leave, compensation, employment practices, employee relations, and position classification.<sup>9</sup>

During the period January 1, 2014, through December 31, 2014, the Tennessee State Museum did not have a separate human resources division to oversee its 41 employees. Human resources activities were instead carried out by an Administrative Services Assistant 2 (ASA2), under the direction of the Deputy Director. The ASA2's human resources-related job duties included entering time and leave requests in Edison, the state's accounting system, for all employees; conducting new employee orientation; maintaining all personnel files; and assisting management in completing performance evaluations.

Effective February 2, 2015, the museum's Executive Director entered into a Memorandum of Understanding to transfer the majority of the museum's human resources functions to DOHR. This memorandum states that DOHR would provide consultation on compensation and classification issues; services for obtaining qualified applicants; onboarding services; learning, development, and required trainings; technical services; and employee relations consultation. The ASA2 would continue to enter time and leave requests in Edison and assist museum management in completing performance evaluations for museum employees.

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<sup>9</sup> Rule 1120-01-.01 of the *Rules of the Tennessee Department of Human Resources* defines Classification/Class of Positions as "a group of positions sufficiently alike in duties, authority and responsibilities such that the same general qualifications may reasonably be required and the same schedule of pay equitably applied to all positions in the group."

We received and followed up on multiple human resources and payroll allegations during our audit fieldwork, including allegations related to time and attendance; compensation; hiring practices and employee qualifications; workplace harassment; and employee drug use.

Additionally, the Office of the Comptroller of the Treasury previously issued two reports that spotlighted human resources deficiencies. A January 2011 special report identified a weakness where in August 2005, the Deputy Director's son did not disclose a felony conviction on his application for an open Museum Preparator<sup>10</sup> position. The museum retained this employee despite subsequent felony convictions and his failure to report all convictions to management as required by DOHR policy. The August 2014 investigations report focused on a former ASA2<sup>11</sup> responsible for fiscal functions who was forced to resign for gross negligence after committing fraud. This ASA2 had prior convictions involving theft and forgery. The ASA2 did not disclose the prior convictions to museum management.

Our objectives in reviewing payroll and human resources were to determine whether

- the Tennessee State Museum's records for the period January 1, 2014, through December 31, 2014, revealed any payments made to "ghost" employees;<sup>12</sup>
- in response to prior findings, museum management implemented the Office of the Comptroller of the Treasury's recommendations involving
  - an employee with a felony conviction and
  - the creation of a background check policy;
- all the employees hired by the museum during calendar year 2014 and other high-risk employees met the minimum requirements for their positions;
- museum employees were properly accounting for hours worked; and
- the museum complied with
  - the statewide policy governing the hiring of individuals in executive versus preferred service positions,
  - applicable statewide and internal policies regarding conflict-of-interest statements and ethics forms,
  - statewide Drug Free Workplace policies,
  - the statewide policy governing the investigation of harassment allegations,
  - the statewide policy involving pay raises given for assignment differentials,<sup>13</sup> and

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<sup>10</sup> According to the State of Tennessee's Class Specification Bulletin, Museum Preparators install audiovisual and lighting equipment and assist in setting up museum exhibits and building display cases.

<sup>11</sup> The former ASA2 referenced in the investigations report was terminated by the museum in January 2014. The former ASA2 is a different employee than the ASA2 who carries out human resources functions, mentioned above.

<sup>12</sup> Ghost employees are individuals listed on an organization's payroll who are not actually employed by that organization. The ghost employee may be either a fictitious person or a real individual.

- applicable guidance addressing succession plans for the key positions of Executive Director, Deputy Director, Director of Collections, and Director of Public Programs.

For each objective, we interviewed key museum personnel to gain an understanding of the internal controls designed and implemented over the payroll and human resources area. We examined DOHR policies and the *Department of Human Resources State of Tennessee Attendance and Leave Policies and Procedures*, dated October 2014. We also interviewed relevant DOHR management and staff to gain an understanding of statewide policies, procedures, and processes. We reviewed the finding related to employee background checks contained in the Office of the Comptroller of the Treasury's January 2011 special review report and the finding related to an employee's criminal record featured in the August 2014 investigations report and noted any improvements management made in response to both reports.

From Edison, we obtained a list of all museum personnel employed during the period January 1, 2014, through December 31, 2014. We used state employee listings, statewide email, and Internet searches to verify that each employee listed was an actual museum employee.

To follow up on the prior special report finding, we inspected the personnel file of the employee in question to determine if it had been updated to reflect his felony conviction.

We compiled a listing of three employees hired during the 2014 calendar year. We also identified five other employees as high-risk because their qualifications were questionable based on our discussions with museum personnel. We performed testwork on these eight employees by reviewing personnel files to ensure they met the minimum qualifications for their positions and that the museum's hiring process complied with DOHR policies.

For our objective concerning employees' hours worked, we obtained and examined the museum's badge scan records from October 11, 2014, through March 11, 2015. We observed the arrivals and departures of museum employees. Additionally, we obtained employee leave records for January 1, 2014, through March 2, 2015, and April 1, 2015, through April 30, 2015. We also watched video footage from the museum's security cameras.

We analyzed conflict-of-interest and ethics forms for all 41 museum employees to assess whether the forms were completed as described by management.

We researched statewide Drug Free Workplace policies. We read Attorney General Opinion No. 14-52, Drug Free Workplace Programs, and reviewed Section 50-9-105, *Tennessee Code Annotated*, which establishes minimum requirements for agencies to conduct drug tests. In addition, we discussed Drug Free Workplace and drug testing requirements with the Office of the Comptroller of the Treasury's Assistant General Counsel.

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<sup>13</sup> An assignment differential is a salary adjustment given to an employee who is temporarily assigned additional responsibilities that are more complex than the employee's current job classification. When the additional responsibilities are no longer being performed, the salary adjustment must be removed.

We obtained a listing of all assignment differentials given since Edison's implementation in 2009. To evaluate whether the assignment differentials complied with DOHR policies, we examined supporting documentation.

Furthermore, we obtained and studied the museum's emergency succession plan.

Based on our testwork, we determined that

- all employees who received paychecks during the 2014 calendar year were legitimate employees;
- museum management addressed the Office of the Comptroller of the Treasury's recommendation involving the employee with a felony conviction, although they had not fully implemented background checks for new employees (see Finding 1);
- when reviewing all three employees hired by the museum during calendar year 2014 and the five high-risk employees, we found one instance where museum management hired an employee who did not meet management's established job requirements (see Finding 1);
- due to insufficient internal controls over time and attendance, we were unable to determine if museum employees were properly accounting for their hours (see Finding 2); and
- while the museum complied with
  - applicable statewide and internal policies regarding conflict-of-interest statements and ethics forms, and
  - the statewide policy governing the investigation of harassment allegations,we found concerns relating to
  - the statewide policy governing the hiring of individuals in executive versus preferred service positions (see Finding 1), and
  - applicable guidance addressing succession plans for the key positions of Executive Director, Director of Administration, Director of Collections, and Director of Public Programs (see Results of Other Audit Work).

We discovered that no statewide Drug Free Workplace policy existed as of May 19, 2015. Additionally, based on our discussions with the Office of the Comptroller of the Treasury's Assistant General Counsel and our review of Attorney General Opinion No. 14-52, we determined that the museum was not required to establish a Drug Free Workplace Policy. Through our office's discussions with DOHR personnel, we learned that the department was working on guidelines to assist agencies that did not have statutory or rule based authority in creating drug testing policies, although these guidelines had not been finalized or approved.

Finally, we found that museum management complied with the statewide policy involving pay raises given for assignment differentials, with the exception of the assignment differential paid to the museum's Deputy Director. Our testwork disclosed that DOHR approved

the museum's request on behalf of the Deputy Director contrary to DOHR Policy 12-002, "Executive Service Compensation."

**Finding 1 – Tennessee State Museum management's hiring practices raised questions about an employee's qualifications, and the museum's background check procedures did not sufficiently mitigate risks emerging from prior Office of the Comptroller of the Treasury reports**

***Questionable Hiring Practices***

During our audit, we examined various aspects of the Tennessee State Museum's hiring practices, ultimately noting that museum management hired an individual who did not meet all of the requirements established by management for that position.

**Condition, Criteria, and Cause**

Throughout our audit, we received numerous allegations that management hired five employees in particular who were unqualified for their positions. Upon examination of these five high-risk employees' personnel records, we only identified one occasion (20%) where museum management improperly fast-tracked the hiring process.

In this instance, we found that the employee hired in 2009 to fill an executive level Museum Program Assistant position did not meet the established minimum education requirements for the position as stated in the class specification bulletin. The position conducts educational activities involving direct interaction with the public, including, but not limited to, presenting interpretative tours and educational programs at the museum and the State Capitol.

According to a memorandum from museum management to DOHR requesting the reclassification of the Museum Program Assistant position from preferred to executive service, museum management stated that this position's responsibilities would include serving as a liaison to the commission and "assist[ing] with tours and programs which serve the commission's desire to serve the interest of the general public," which is one of the duties of a Museum Program Assistant, whether preferred service or executive level position.

Museum management was not required to establish minimum requirements for the executive service Museum Program Assistant position. Management was free to hire whomever they determined was best qualified; however, in the Executive Service Appointment request, management explicitly stated that the candidate met the established minimum qualifications for the Museum Program Assistant position, including education requirements of the preferred service position.

For preferred service positions, the Department of Human Resources Commissioner, with the input of appointing authorities, promulgates minimum qualifications that must be met in order to fill the position. For executive service positions, the appointing authority is not required to use any minimum qualifications. Section 8-30-202(b), *Tennessee Code Annotated*, states, "An

employee in the executive service is an employee at will and serves at the pleasure of the employee's appointing authority."

The preferred service minimum qualifications for the Museum Program Assistant position include either (a) a bachelor's degree or (b) four years' experience in museum work or education. In the Executive Service Appointment request submitted to DOHR on November 13, 2009, the Executive Director stated that the Museum Program Assistant "meets all the qualifications for this job class [Museum Program Assistant]."

Based on discussion with the Museum Program Assistant (who, subsequent to taking this position, received a promotion to Administrative Services Assistant 4 in 2010), though, she only had 48 weeks, or less than one year, of experience at the time of her hire.

This employee also commented that she does not possess a bachelor's degree, but we observed that her application contained handwritten comments under the education section stating that she held a bachelor's degree in public administration from Nashville State Community College, with attendance from August 1987 to May 1989. Our review of Nashville State Community College catalogs disclosed that the college did not offer bachelor's degrees when she attended. Furthermore, when we questioned the Deputy Director about the application, she told us that the bachelor's degree comment was in her handwriting, but she did not know why she wrote it, since the employee lacked such a degree.

The Deputy Director explained that the Museum Program Assistant had been placed in that position because it was the only one available and that she and the Executive Director thought that the applicant's teaching experience would suffice. The Deputy Director maintained that the Museum Program Assistant met the minimum position qualifications at the time of her hiring.

We did determine that the Museum Program Assistant is qualified for the Administrative Services Assistant 4 position she currently holds.

### Effect

Noncompliance with established human resources practices increases the risk of hiring unqualified or inappropriate individuals. Also, according to the Tennessee State Museum Code of Ethics, "The Tennessee State Museum shall engage in legal and ethical hiring and termination practices as defined by the State of Tennessee. . . . In all activities, museum employees must act with high integrity and in accordance with the most stringent ethical principles as well as the highest standards of objectivity." Museum employees look to management to institute a tone of integrity and honesty. By not strictly adhering to established practices, museum management could jeopardize the museum's integrity and employee morale by hiring unqualified individuals.



## Recommendation

We recommend that Tennessee State Museum management follow all prescribed hiring practices. Additionally, the Douglas Henry State Museum Commission should exercise proper oversight over the museum's human resources functions.

## ***Background Checks***

### Condition, Criteria, Cause

Two prior reports issued by the Office of the Comptroller of the Treasury (Comptroller's Office) highlighted the Tennessee State Museum's need to perform background checks.

- In a January 2011 special report, the Comptroller's Office reported a finding related to a Museum Preparator's failure to disclose a 1998 felony conviction for drug possession in his 2005 employment application. Management concurred with the finding and stated in part, "Criminal background checks are not conducted on candidates for employment as criminal convictions do not preclude an applicant from employment at the state. Therefore, the museum must rely on information supplied by the applicant as well as reference checks in making hiring decisions."
- Additionally, the Comptroller's Office released an August 2014 investigations report featuring a finding that the Administrative Services Assistant 2 (ASA2) falsified invoices and vendors and rented a car through the state's Enterprise program for personal use. Because of the employee's actions, museum management uncovered a \$61,892.94 cash shortage on January 31, 2014. The investigation further revealed that when the museum hired the ASA2<sup>14</sup> in 2011, she was on parole for a theft of property of over \$60,000. In concurring with the finding, management stated that in order to improve internal controls, the Douglas Henry State Museum Commission "approved a motion [at its March 3, 2014, meeting] to require background checks on all future museum hires pending authorization by the legal division of the Tennessee Department of Human Resources [DOHR] and other legal counsel."

At a September 8, 2014, commission meeting, DOHR General Counsel explained that although some state agencies require background checks for specific child welfare or public safety positions, most lack a background check policy. She added that multiple federal laws establish the need for a "reasonable purpose" for including background checks as part of the hiring decision. Based on her research, the General Counsel concluded that museum management could reasonably target collections and fiscal responsibility positions for background checks.

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<sup>14</sup> The investigation determined that the ASA2 had originally been hired by Adecco USA in 2008 for staffing and contracting employment. Adecco USA had a contract with the Tennessee Department of Human Resources to provide temporary and contract staffing services for the State of Tennessee.

The Deputy Director notified us on February 19, 2015, that DOHR and the Tennessee State Museum had successfully updated the requirements for positions involving collections and fiscal responsibility. We confirmed that management obtained a background check for an employee hired to work in the Collections Department. During our fieldwork, however, management had not addressed attaching a background check to the ASA2 position referenced in the August 2014 investigations report. The ASA2 position is present in multiple agencies statewide; the job responsibilities for an employee serving in this position may not necessarily involve collections and fiscal functions, and therefore would not need background checks.

When we interviewed the DOHR General Counsel, however, we learned that museum management could create a museum-specific Administrative Services Assistant position, thereby allowing the inclusion of the background check requirement. When we informed the Deputy Director of the results of our discussion with the DOHR General Counsel, she told us that she had not been aware of the possibility of creating a museum-specific position. Following discussions with us, she immediately began communicating with DOHR staff to develop a unique “Museum Administrative Services Assistant” position. DOHR informed the Deputy Director of the creation of this position on May 28, 2015.

#### Effect

Failing to require background checks for critical positions increases the risk that employees may continue to engage in illegal activity and inhibits museum management from protecting the museum against possible fraud, waste, and abuse.

#### Recommendation

Museum management should ensure all future hires with collections and fiscal responsibilities undergo a proper background check before management extends an offer of employment. We also recommend that the Douglas Henry State Museum Commission monitor museum management’s implementation of the background checks.

#### Management’s Comment

##### *Tennessee State Museum*

The Tennessee State Museum management does not concur with the Finding.

The Museum management is not only aware of but also works diligently to follow State protocols with regard to hiring practices and background checks, most specifically with positions identified in the report as being “improperly fast-tracked.”

With regard to background checks, the Museum management consistently implemented the development of a new employee background check system within the structural protocols of its agency responsibilities of balancing its dual obligations to its governing authority, the Douglas Henry State Museum Commission (DHSMC), and to its compliance with the employment policies and procedures, mandated by DoHR. Accordingly, the Museum

management successfully and appropriately initiated and implemented an appropriate system for background checks for new employees in February 2015 and has immediately followed-through with subsequent recommendations from the aforementioned authorities as made available per protocol.

### Hiring Practices

Museum management respectfully disagrees with the statements in the audit report concerning misleading implications that the management purposefully and intentionally circumvented the procedural systems mandated by the Tennessee Department of Human Resources (DoHR) to hire an employee that is misrepresented as not meeting minimum job qualifications.

Management concedes that it reclassified the noted position from preferred service to executive service with the purpose of expediting the hiring process to fill a critical key role because the circumstances were time sensitive. However, Museum management never attempted to circumvent hiring practices in an effort to hire the identified staff by neglecting employment qualifications or falsifying employment documents as alleged in the audit report.

In July 2009, the General Assembly passed legislation that transferred governing oversight from the Tennessee Arts Commission (TAC) to the newly formed DHSMC, which was scheduled to hold its first inaugural meeting in January 2010. During the six month interim, Commission appointments were made by the appropriate authorities and the Museum Administration was in process of transferring all procedurally mandated responsibilities previously handled by the TAC administrative staff and delegating those roles throughout the museum's administrative staff. At that time, it became quickly apparent that the museum needed a position to serve as the liaison between the DHSMC and the TSM because the immediate responsibilities were already proving to create a burdensome workload to current staff. The Executive Director and Deputy Director reviewed their options as the agency would be unable to request, create, and fill a new commission liaison position as part of its budget request until the following year.

Consequently, the Museum explored the option of taking a vacant Museum Program Assistant (MPA) position that had been frozen and vacant for more than a year. As part of its request to remove the position from its frozen status, it also sought to transfer the position from Preferred Service to Executive Service because of the time sensitive need to fill the position with a professionally knowledgeable and skilled employee to serve the Commission. DoHR approved the museum's request to move the position to Executive Service on October 28, 2009, prior to date the employee was hired. This meant that the candidate did not need to meet any qualifications for the Museum Program Assistant. Therefore, the Deputy Director was not required to follow any specific route to hiring the employee in a way that met the qualifications for the MPA position nor did she need to generate new qualifications to fill the position as implied in the report. The Deputy Director was only required to justify why the request was being made which were two-fold: to hire an executive assistant that would specifically serve as a liaison to the newly formed commission, and to articulate that the need for the position was critical in order for the agency to fulfill the mandate.

Therefore, the previously cited statement by the Deputy Director from the aforementioned request memo to DoHR dated November 13, 2009, was drafted as part of the completion of the process for documentation. The Deputy Director's statement that the employee "meets all qualifications for this job class" was intended to reflect that she met the qualifications appropriate for the position she was hired to fill and not the qualifications for the specific MPA positions that normally serve in the museum's Public Programs department, which serves as the educational wing of the museum. Ultimately, the purpose of the State's DoHR protocols is to ensure that qualified employees are appropriately hired to meet their filled positions. The system's protocols were followed which is evidenced by the fact that audit report acknowledges that this same employee is fully qualified for the Administrative Services Assistant 4 (ASA 4) position that she currently holds in completing the same job functions she was hired to perform. Both the Commission and the Museum Administration is pleased with the job performance of the employee, who must work with the 14-member commission that holds a variety of corporate, government, non-profit, and cultural backgrounds in meeting the needs of the DHSMC and the Museum.

Finally, the Museum management refutes the audit report's implications that the Museum had motivations to circumvent the hiring process because the employee lacked the minimal educational requirements and teaching experience for the MPA position routinely held by museum educators. The inclusion of the information is not necessary as it does not change the fact that the employee was not required to meet those requirements due to the fact that the position had been changed to an Executive Service position. Furthermore, the allegations imply the Deputy Director attempted to falsify the employee's educational background because she wrote "bachelor's degree" on the application. The Deputy Director did explain during the audit interview that she writes notes on documents but that it was never intended to imply that the employee had a bachelor's degree as part of the submission of documentation filed with DoHR.

### Background Checks

As noted in the Audit Report, the museum experienced two instances in which employees were later discovered to have felony convictions. Following the second instance which was detected during a fraud investigation and was later reported in the Comptroller's Report, the DHSMC advised the museum to create a system for background checks for new employees. The Museum Administration followed all procedures in investigating the process with DoHR and making status reports to the Commission at subsequent quarterly meetings. The staff was not able to move forward on making decisions regarding the development of its background check policy without Commission approval and always made the appropriate inquiries to the legal division of DoHR as advised by the Commission at both the June 2014 and September 2014 meetings. At the September 2014 meeting, DoHR legal counsel specifically explained that the museum could not enforce an institution-wide policy for all new hires without creating legislation through the General Assembly, but it could select museum specific positions with fiscal and museum collection responsibilities. The museum subsequently worked with DoHR to develop a policy to implement those procedures.

However, the Museum Deputy Director was informed by DoHR that she could not include the ASA 2 position among the museum positions required for criminal background

checks because that was a position title posted throughout other state agencies. It was explained that the process would be inconsistent with hiring practices for other ASA 2 positions for other state agencies. Accordingly, the museum could not legitimately perform criminal background checks on ASA 2 position candidates according to the DoHR's legal guidance at the time that the museum's criminal background check was implemented and enforced. It was not until the auditors interviewed DoHR Legal Counsel about the issue during its 2015 performance review that the option of creating a unique "Museum Administrative Services Assistant" position was offered as a potential option. Consequently, the Deputy Director received the recommendation for the development of the new position which was implemented on May 28, 2015.

### *Department of Human Resources*

The Department of Human Resources does not concur with your findings regarding negligent hiring practices by the Museum.

An employee in the preferred service must meet the minimum qualifications established by the agency. In seeking a preferred service appointment, the Department of Human Resources certifies the minimum qualifications and refers a list of all eligible candidates to the agency. The agency must then select a candidate from that list.<sup>15</sup> See Tennessee Code Annotated, Section 8-30-301 et seq.

In contrast, Tennessee Code Annotated, Section 8-30-202 defines positions which are to be in the executive service. Among these are positions that serve in a confidential capacity to a commissioner (or in this case the executive director), or employees with substantial policy development or implementation. Because of the array of positions that are included in the executive service, these positions do not, generally, have job descriptions or established specific minimum qualifications. Further, as noted in your audit review, an employee in the executive service serves at the pleasure of the appointing authority. Tenn. Code Ann. § 8-30-202. Because of this agency autonomy, each agency maintains flexibility to hire individuals who they determine are best qualified to meet the needs of the agency.

It is also important to note that the Museum continues to rely on the Department of Human Resources as a subject matter expert for assistance in their personnel needs. And, as of 2015, the Museum initiated a memorandum of understanding allowing the Department to perform the bulk of the personnel actions on behalf of their agency.

As for background checks, the Department cannot concur with the finding that the Museum was negligent in not obtaining background checks for certain positions. The State of Tennessee as an employer does not maintain a universal background check policy. Certain agencies, by statute, obtain background checks for certain employees, especially those that interact with children or vulnerable persons. The Equal Employment Opportunities Commission has issued guidelines for the use of background checks in employment screening in order to assure that employers do not perform background checks to obtain information in a manner

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<sup>15</sup> The Tennessee Excellence and Accountability Act of 2012 made voluminous changes to the State's hiring practices. However, the Department of Human Resources is still responsible for reviewing applications for preferred service candidates and for certifying minimum qualifications.

that denies equal employment opportunity to anyone on a protected basis, by intent or by unlawful impact. It is true that background checks are permissible as long as the policy is applied consistently and fairly, and the same standards are applied to every applicant regardless of race, national origin, color, sex, religion, disability, genetic information, or age. The guidance also states that the background checks cannot be applied if doing so would have a disparate impact on a group of protected individuals or if the background check is not job related and consistent with business necessity.

To acknowledge the tenacity of the Museum, once the agency determined that background checks may be necessary for certain positions, they began reaching out to this Department for advice as opposed to traversing legal territory in which they do not maintain expertise. The Museum has worked diligently with the Department in identifying positions that should be subject to background checks because of the sensitive nature of information. Each position is evaluated in conjunction with the Department of Human Resources to ensure that the background checks are being conducted fairly and consistent with business necessity.

To single out the Museum for not implementing such a policy without such guidance would be inconsistent across the enterprise. The Department defers to the will of the legislature for issuing a statewide background check policy, rather than agency by agency, as that would lead to inconsistent application.

*Douglas Henry State Museum Commission*

DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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**Finding 2 – Museum management had not developed and implemented adequate internal controls over employees’ time and attendance**

**Background and Criteria**

*Tennessee State Museum Time Reporting Process*

At the end of each pay period, Tennessee State Museum employees must submit a time log containing any leave they took during the pay period and any overtime they worked. This time log does not include the number of hours actually worked each day; however, the log contains the statement, “Other than the leave or overtime period listed above, all other time was worked as scheduled.” The time logs must be signed by the employee and the employee’s supervisor. The museum’s designated time keeper, an Administrative Services Assistant 2, uses

the time log to enter the employees' time in Edison. After entering, the time keeper signs the time log. The Deputy Director then approves the time in Edison.

### *Time and Attendance Policies and Procedures*

Douglas Henry State Museum Commission Operating Policy 2.0 establishes that pertaining to paid staff, the museum's Executive Director will "adhere to written personnel policies of the State of Tennessee." The Tennessee Department of Human Resources (DOHR) promulgates personnel policies for state entities.

Chapter 21 of the *Department of Human Resources State of Tennessee Attendance and Leave Policies and Procedures* manual states, "Each supervisor should take the following procedures to assure correct time reporting for each employee: (A) Determine the employee's work schedule; (B) Determine the employee's daily shift (the actual time of day the employee is scheduled to begin and end work) . . . [and] (C) Determine that the employee's actual work performed as shown on the timesheet is correct. . . ."

Chapter 21 of the DOHR Attendance and Leave Manual specifies, "A hard copy time sheet for each employee who used leave or worked overtime must be submitted to the proper audit authority at the end of each pay period. This record must be signed by both the employee and the employee's supervisor, verifying the accuracy of the hours scheduled, hours worked, and leave taken."

Additionally, the DOHR Telework policy, Policy 13-001, Section 4-A-2, requires the appointing authority<sup>16</sup> to "appoint the Agency Human Resource Office to ensure appropriate management controls and reporting procedures are in place before employees begin Telework assignments." The policy outlines all requirements for employees to participate in the Telework program. Employees who participate must be willing to sign and abide by a written Telework Program Agreement, which includes the hours and days of duty designated for each duty station [Telework and Agency-owned]. Furthermore, the policy requires employees who participate in the Telework program to compile and submit to their supervisor a Telework Productivity Report, the purpose of which is to "sufficiently document work performed by the Telework participant so that a reasonable person could understand the amount and level of work performed." This report must be submitted on a "regular basis."

### Condition

We identified several weaknesses in internal controls over employee time and attendance:

1. The timesheets completed by employees only report when an employee uses leave or earns overtime. Museum management does not require staff to maintain a record of regular work schedules or hours worked each day.
2. The time keeper enters time for all of the museum's employees and frequently performs all time approvals: supervisor, time keeper, and Deputy Director.

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<sup>16</sup> The Executive Director serves as the Tennessee State Museum's appointing authority.

3. Museum management did not ensure appropriate telecommuting controls and reporting procedures were in place; employees who telecommuted (participating employees) did not have Telework Program Agreements, Telework schedules, or assigned duty stations on file. Participating employees did not maintain a record of work completed while telecommuting, such as the Telework Productivity Report.

### Cause

The museum's Executive Director and Deputy Director were unaware that documentation requirements existed for recording employee time worked. Management was also unaware of Telework program requirements. Discussions with the time keeper revealed that due to payroll deadlines, she occasionally enters time in Edison even if a supervisor has not approved the time log. The time keeper also noted that she makes approvals on behalf of the Deputy Director frequently when the Deputy Director does not have time to make the approvals herself.

Additionally, management maintains that it can effectively monitor employees' time and attendance because they work in such close quarters. Management also stated that many museum employees work more than 37.5 hours per week and do not claim any overtime; therefore, management feels confident employees are working their required hours.

After we discussed this finding with museum management, management began corrective action by requesting that staff provide current work schedules, and management plans to hold a staff meeting by October 1, 2015, to distribute a new time reporting policy.

### Effect

Without maintaining records of normal work schedules or start and stop times, management cannot effectively monitor whether employees worked their required hours.

The supervisor approvals of employee time serve to ensure that the employee's reported time accurately reflects hours worked and leave taken, while the Deputy Director's review of time entered by the time keeper is important to reducing the number of errors in time entry. When approval duties are not performed by the appropriate individuals, the risk of errors or fraud related to time and attendance increases.

Without documentation and review of employee Telework agreements and productivity reports, management has no assurance that participating employees have worked the hours they have claimed.

### Recommendation

Museum management should develop and implement proper internal controls over employees' time and attendance. Management should maintain documentation of employees' regular work schedules. Management should also develop and implement a process, which meets the minimum requirements of the DOHR Attendance and Leave Manual, for documenting time worked by staff. Additionally, if management wishes to allow employees to telecommute,



management should implement a program that complies with DOHR's Telework policy. Furthermore, management should ensure that approver duties are appropriately segregated to provide assurance that hours reported and approved are an accurate reflection of the hours worked.

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

### Management's Comment

#### *Tennessee State Museum*

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

Museum management will maintain documentation of employees' regular work schedules. All time records will meet or exceed the minimum requirements to appropriately document employee time worked. Management will make determinations regarding telecommuting on a case-by-case basis, but will ensure that appropriate controls and reporting procedures are in place before employees begin Telework assignments.

Further, management has utilized a Memorandum of Understanding (MOU) with the TN Department of Human Resources for staff assistance in keying and approving time and attendance entry into the Edison system, which will give the agency an appropriate segregation of duties in performing these functions.

#### *Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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### **Results of Other Audit Work – Succession Planning for the Museum's Key Roles**

During our interviews, some Douglas Henry State Museum Commission members and Tennessee State Museum staff expressed concerns relating to succession planning, especially in light of the state's plans to construct a new state museum (see the Status of the Proposed New Tennessee State Museum Facility section on page 63). Succession planning is the process an organization uses to ensure that employees are developed to fill key roles. Based on our inquiries with the Executive Director and Deputy Director, we determined that the Tennessee State Museum has four key roles which are essential to fulfilling the museum's mission. All of the employees filling the roles have held them for several years (see Table 1).

<b>Table 1 Key Roles</b>	
<b>Position*</b>	<b>Years in that Position</b>
Executive Director	34
Deputy Director	19
Director of Collections	25
Director of Public Programs	15

\*We describe the responsibilities of these positions in the Organization and Statutory Responsibilities section on page 1.

As of May 28, 2015, the Tennessee State Museum’s management did not have a formal succession planning process, and plans that had been developed were not documented. The only formal plan the museum’s Executive Director possessed was an emergency succession plan for the Executive Director; no other critical positions are addressed. Museum management had also “earmarked” staff to succeed the Director of Collections and the Director of Public Programs by providing these staff with training and extra autonomy as part of their existing duties.

The Tennessee Department of Human Resources’ Strategic Learning Solutions Division, led by the Chief Learning Officer, provides state appointing authorities with executive coaching in workforce planning and development, which includes succession planning. As stated in the Tennessee Workforce Planning Guide, *Talent Management: An Executive Leadership Strategy*, “Although Workforce Planning is not legislated in the state of Tennessee, effective leaders use Workforce Planning to proactively plan, align and manage the human capital resources needed to achieve their mission and objectives.” Furthermore, it states that “workforce planning is a core responsibility of agency leaders because they are accountable for achieving the agency’s mission.”

Discussion with the Executive Director and Deputy Director revealed that they feel their current succession planning process is sufficient. Furthermore, they do not believe it is appropriate to plan for the future of the critical positions of Executive Director and Deputy Director because they will not be charged with filling those positions. The Douglas Henry State Museum Commission will fill a vacancy in the Executive Director position.

Without a formal, documented succession plan, the commission and museum management cannot ensure continuing operations of the museum with few disruptions. Additionally, as critical roles become vacant and the museum contemplates moving to a new facility, succession planning will become crucial to management’s success in meeting the museum’s missions and objectives.

## **INVENTORY**

The Tennessee State Museum is responsible for object storage, care, acquisitions, research, object/exhibit interpretation, incoming and outgoing object and exhibit loans, contracts, and insurance. The museum’s collection includes the social, political, economic, and cultural

history of Tennessee, along with decorative and fine art created within or relating to the state. There are approximately 122,000 permanent objects at the museum, including paintings, quilts, coverlets, silver, furniture, firearms, and fashion collections.

Significant personalities associated with Tennessee are represented in the collection, including President Andrew Jackson, painter Ralph E. W. Earl, President James K. Polk, frontiersman David Crockett, Governor Sam Houston, President Andrew Johnson, General Nathan Bedford Forrest, Admiral David Farragut, Sergeant Alvin C. York, singer Elvis Presley, author Alex Haley, Secretary of State Cordell Hull, and Vice President Albert Gore, Jr. Significant events in which Tennesseans played a major role are represented in the collection as well, such as the Revolutionary War Battle of Kings Mountain, the War of 1812, Reconstruction, the passage of the Nineteenth Amendment to the U.S. Constitution giving women the right to vote, the Scopes Trial involving the teaching of human evolution in state-funded schools, and the Civil Rights Movement.

Museum management and staff use the Argus computer system to maintain its collection. Even though the artifacts are located in different locations, the museum's main collection resides in the James K. Polk Cultural Center.

In addition to administering the state's vast collection of artifacts, the Tennessee State Museum, in conjunction with the Tennessee State Museum Foundation, hosts receptions to promote the museum's collection to the public. As a private, nonprofit organization, the Tennessee State Museum Foundation's main purpose is to provide support to the museum. According to the foundation's bylaws, the foundation also collects and maintains funds for the support of the Tennessee State Museum's public functions and special projects. In support of these activities, the foundation solicits and receives donations, establishes fundraising projects, and accepts loans, bequests, and devises of property. The foundation's primary annual fundraisers are *A Tennessee Waltz* and *Sparkle and Twang*, but it and the museum also host openings for newly installed temporary exhibits, such as the *Servants of Safety: 85 Years of the Tennessee Highway Patrol* exhibit, which opened July 3, 2015. Financed by the Tennessee State Museum Foundation, the museum prepares the location; purchases food and refreshments, including alcoholic beverages; and hires service staff to work the events. The alcoholic beverages purchased for and any unused bottles from these events are stored at the museum and are maintained by museum staff.

Reports issued by the Office of the Comptroller of the Treasury (Comptroller's Office) identified several deficiencies involving the museum's artifact inventory.

1. The January 2011 special report entitled "Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum" specifically identified the following weaknesses:
  - a. A former curator purchased a \$6,500 musket without the approval of a committee of at least three members, although committee approval was required by the manual. The museum could not authenticate the musket. The musket was

acquired with Tennessee State Museum Foundation funds and was not reimbursed by the museum.

- b. The museum reimbursed the foundation for one item, a photograph of DeAngelo Williams (now a professional running back from the University of Memphis) worth \$22.99, which it never received. This deficiency was not discovered because the museum curator did not follow up to ensure the receipt of the item.
2. In an August 2014 investigations report, the Comptroller's Office described a former Administrative Services Assistant 2's scheme to falsify 26 collection piece invoices totaling \$49,477 and divert funds to her personal accounts. The fraud went undetected because museum staff did not reconcile purchases with inventory records.

Our objectives in reviewing inventory were to determine whether

- o in response to the prior findings, museum management implemented reconciliations of purchases with inventory records;
- o museum management corrected the prior finding by authenticating items added to the collection;
- o museum management corrected the prior finding by obtaining the required acquisition approvals in accordance with internal policies;
- o museum management had adopted a strategic plan to govern its acquisitions;
- o museum staff promptly cataloged artifacts;
- o museum management complied with state law by reporting lost and missing items to the Comptroller's Office;
- o museum management and staff had taken adequate steps to preserve its collection; and
- o controls over alcoholic beverage inventory were in place as described by management and operating effectively.

For each of our objectives, we inquired with relevant museum personnel about internal controls designed and implemented. We reviewed the *Tennessee State Museum Collections Manual* as well as the American Alliance of American Museums' standards and code of ethics. We also studied the inventory findings noted in the Office of the Comptroller of the Treasury's January 2011 special report and August 2014 investigations report and noted any improvements management made in response to those findings.

We examined the museum's purchasing reconciliation process, implemented in response to the prior audit findings. Using a listing of all inventory purchases made from July 1, 2014,

through December 31, 2014,<sup>17</sup> we reperformed the reconciliation of purchase documentation with the appropriate artifact log book entries.

We reviewed the October 9, 2014, and December 8, 2014, Douglas Henry State Museum Commission's Collections Acquisitions Committee meeting minutes and the discussion of strategic planning. Additionally, we attended the April 6, 2015, commission meeting and documented the members' discussion of the museum's strategic plan.

We observed while staff logged into Argus, the museum's inventory system, and viewed uncataloged items. We also inspected the log book where artifact loans from and to the museum were recorded.

We reviewed Section 8-4-119, *Tennessee Code Annotated*, which outlines the responsibility of agencies to report certain acts to the Office of the Comptroller of the Treasury, including theft or unauthorized taking of public property.

We compiled a listing of artifacts acquired during the period January 1, 2014, through December 31, 2014. We performed testwork on the entire population of 167 items to determine if the items were authenticated. Additionally, we tested the population of items to ensure proper approvals were obtained, as required by the *Tennessee State Museum Collections Manual*.

During walkthroughs and meetings with museum staff, we observed artifacts located around museum office space and in storage areas. Additionally, we obtained photographic evidence and observed water damage to museum office space and storage areas, as well as exhibit areas. We also attended and documented the January 12, 2015, Douglas Henry State Museum Commission meeting at which commission members discussed water damage at the War Memorial Building.

We observed the alcoholic beverage storage areas within the museum. Furthermore, we reviewed the museum's alcoholic beverage inventory process and any available documentation of the inventory completed by the museum.

Based on procedures performed, we determined that

- the Tennessee State Museum's purchase reconciliation process did not effectively mitigate the risks identified in the prior audit finding (see Finding 3);
- museum management and staff could improve the process for documenting authenticity of items added to the collection (see Finding 4);
- museum management and staff did not properly document acquisition approvals (see Finding 4);
- museum management, with involvement from the Douglas Henry State Museum Commission, was developing a strategic plan to govern acquisitions;

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<sup>17</sup> Our scope period, January 1, 2014, through December 31, 2014, overlapped with the scope period of the prior audit, April 30, 2011, through January 31, 2014; therefore, we tested purchases made during the period July 1, 2014, through December 31, 2014, to allow museum management time to implement corrective action.

- museum staff experienced a backlog in cataloging artifacts due to problems with the inventory system, but, in the interim, the museum developed an alternative process;
- no items were lost or missing due to an intentional act, so no disclosure of the items to the Comptroller's Office was necessary;
- museum management and staff had not taken adequate steps to preserve the museum's collection (see Finding 5); and
- museum management lacked internal controls to ensure the security of the alcoholic beverage inventory (see Finding 6).

**Finding 3 – Despite implementing a reconciliation process to address fraud risks identified in an investigations report, control deficiencies within the reconciliation process still exist**

Background

In August 2014, the Office of the Comptroller of the Treasury's Financial and Compliance Investigations Division issued a report related to an investigation of the Tennessee State Museum, covering the period April 30, 2011, through January 31, 2014. This investigation centered on the actions of the former Administrative Services Assistant 2 (ASA2) who falsified 26 invoices, resulting in fraudulent payments to her personal bank account of \$49,477. As a result of this fraudulent activity, management forced the former ASA2 to resign on February 12, 2014; the current ASA2 started work on August 18, 2014. Also, the investigators found that management failed to detect this fraudulent activity because museum management did not require staff to reconcile purchase documents to the receipt of actual artifacts. In response to the finding, museum management implemented two controls in their purchasing process:

- Museum staff began reconciling purchase documentation (invoices and purchase orders) with entries in a log book used to record the receipt of artifacts purchased.
- As an additional control to ensure payments processed by the Tennessee Department of Finance and Administration (F&A) on behalf of the museum are legitimate, the museum started reconciling a weekly listing of vendor payments from the F&A's Division of Accounts with the corresponding vendor invoices.

*Purchasing/Vendor Payment Process*

Effective December 1, 2013, the museum entered into a Memorandum of Understanding to outsource its financial and reporting functions to the F&A Division of Accounts. One of the functions transferred was the payment of vendor invoices.

To pay vendor invoices for artifacts and other purchases, the museum's current ASA2 creates and submits requisitions and purchase orders in the Edison accounting system. The current ASA2 scans and sends related invoices to the F&A Division of Accounts for payment processing. Once received, F&A Division of Accounts staff check invoices against the related

purchase orders and review them for mathematical accuracy before processing payment. Division of Accounts staff also disburse payments to vendors and record the transaction in the general ledger. For artifact purchases, curators within the museum's Division of Collections receive artifacts and record details of the artifacts in a log book. The ASA2 reconciles the log book to the related purchase orders and invoices monthly to ensure that each item was properly received.

### Condition

In order to afford management the opportunity to implement sufficient corrective actions to the deficiencies noted in the investigations report, we conducted testwork and evaluated internal controls relevant to the issues identified in the investigations report for the period July 1, 2014, through December 31, 2014.

We reperformed the reconciliation of purchase documentation with the appropriate log book entries for all 23 artifacts that were purchased by the museum during this period. Based on the testwork performed, we concluded that all purchase documentation agreed with the relevant log book entries; however, our observations and inquiries with management revealed the following internal control deficiencies:

- Management did not segregate two critical functions: purchasing items and reconciling purchases to vendor payments. The current ASA2 who created and submitted purchase orders also performed both of the newly implemented reconciliations, which served as the primary and additional control to prevent the reoccurrence of fraudulent payments as noted in the investigations report.
- Management did not implement a method to document receiver duties. The log book did not include a signatory column or any other indicator that would identify that the individual who received the artifact is independent of purchasing and reconciling duties.
- The current ASA2 did not sign/certify and date the reconciliation of purchase documentation to log book entries as evidence that the reconciler was independent to the procurement process and that reconciliations were performed promptly.

### Criteria

In response to the investigations finding, management stated in their comments,

When the Museum receives an object, it is immediately entered into the Collections log book along with the date and the appropriate staff signatures. . . . In the future, museum collection staff will submit a copy of the log book entries to the TSM [Tennessee State Museum] Deputy Director. Museum fiscal office staff will then reconcile the list of artifacts received entries in the log book against all artifact purchases.

Based on our review of this report and discussion with the Deputy Director, we determined that the purpose of this reconciliation was to address fraud risks by ensuring invoices for artifacts received are genuine; however, for this or any similar reconciliation to provide such assurance, the individual performing the reconciliation must be independent from purchasing and receiving duties. Accordingly, a documented trail should exist proving that duties are segregated by identifying who performs purchasing, receiving, and reconciliation duties.

#### Cause

Management stated that the museum lacked sufficient fiscal personnel to properly segregate purchasing functions; however, management recently transferred the majority of their human resources responsibilities to the Department of Human Resources, enabling management to assign the museum's human resources employee fiscal duties.

Additionally, management stated that they had not considered requiring a signatory column in the log book to document receiving duties or requiring employees to certify and date reconciliations.

#### Effect

Failure to ensure that duties related to reconciliations are appropriately segregated increases the risk that fraud or errors will occur and will remain undetected. It also increases the risk that the museum staff will inappropriately pay for artifacts that the museum did not receive.

#### Recommendation

Management should ensure that responsibility for the reconciliation of purchase documentation to log book entries is assigned to an employee independent of purchasing and receiving duties. Also, the reconciliation of the weekly payment report, obtained from the Division of Accounts, with applicable invoices should be performed by an employee independent of purchasing duties. Segregation of duties for both reconciliations should be documented by ensuring both reconciliations are certified and dated.

As part of its review of the museum's internal controls, the Douglas Henry State Museum Commission should ensure that purchasing reconciliations performed to prevent or detect fraud, waste, and abuse are assigned to staff independent of the purchasing process.

#### Management's Comment

##### *Tennessee State Museum*

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

Museum management has implemented a procedure when the museum receives an object, it will be immediately entered into the Collections log book along with the date and the



appropriate staff signatures. Museum staff independent of artifact receiving or fiscal responsibilities will reconcile the list of artifacts received entries in the log book against artifact purchases records.

*Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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**Finding 4 –Tennessee State Museum management and staff did not properly document approvals and authentication information before acquiring items for the museum’s collection; furthermore, museum management and staff did not always adhere to the purchasing guidelines outlined in the *Tennessee State Museum Collections Manual***

Background and Criteria

As part of its oversight function, the Douglas Henry State Museum Commission’s Collections Acquisitions Committee reviews and approves the *Tennessee State Museum Collections Manual*. The Douglas Henry State Museum Commission adopted the manual in 2012 and amended it in 2013. The manual outlines proper procedures for both purchases and non-purchase acquisitions/donations of items for the museum’s collection. The Collections Manual states it is the “governing authority in regard to collections policies and procedures at the Tennessee State Museum.” Included in those guidelines are the following pertinent requirements:

*Purchases*

- An object recommended for purchase . . . is to be brought to the attention of the appropriate curator in the Collections Department, the Director of Collections, or the Executive Director. If the purchase price is less than \$1,000, a record of the recommendation and subsequent deliberations (including the principal staff involved in the decision to acquire and an appropriate curator) must be in writing (which can include e-mail) and printed copies are to be placed in the object file.<sup>18</sup> If the purchase price is \$1,000 or more the recommendation must be on the State Museum justification form . . . which requires written justification of the price and the need for the acquisition.
- If the Executive Director or the Director of Collections concurs [with the recommendation to acquire the object], he/she will convene an Acquisitions Committee of not less than three people on the museum staff to consider the recommendation. At a minimum, that committee must consist of three staff

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<sup>18</sup> The object file contains all relevant information about any object acquired by the museum for its collection.

members and will include the staff member who initiates the recommendation, the curator most knowledgeable of the objects in its classification, and at least one other member of the Collections Department with professional qualifications and applicable expertise in terms of values and needs of the collection. . . .

- If the Committee recommends the acquisition, then the recommendation is presented to the Director of Collections. If the Director of Collections concurs in the Committee's recommendation, the object will be purchased according to established state museum procedures.
- It is understood that, on rare occasions and if absolutely necessary, decisions to purchase an object may be made on-the-spot by the curator or other staff who is presented with an opportunity for acquiring an object(s). However, the curator or other staff member is expected to use good and prudent judgment and to make every effort to secure some level of institutional concurrence (e.g., cell phone call to appropriate supervisory or collegial staff) before agreeing to purchase an object. An on-the-spot decision to acquire an object(s) will still be subject to the review of a museum Collections Acquisition Committee. . . .
- All object(s) with a purchase price of \$15,000 or more must also receive the approval of a member of the Collections Committee of the Douglas Henry State Museum Commission. . . . Absent unusual circumstances, such approval will be granted within two business days if the member of the Collections Committee has confirmed that the staff has complied with the policies and procedures adopted by the Commission and described herein. It is the responsibility of the Director of Collections to . . . secure . . . specific approval for all object purchases or collections purchases . . . [from] a member of the Collections Committee of the Commission for objects of \$15,000 or more.
- It is the responsibility of the Director of Collections to keep the museum Executive Director informed of all purchases and to secure the Executive Director's specific approval for all object purchases or collections purchases of \$1,000 or more. . . .

#### *Non-Purchase Acquisitions/Donations*

- The collections curator will convene an Acquisitions Committee of not less than three people to consider the recommendation. That committee will include any staff member making the non-purchase acquisition recommendation, and curators or others with applicable expertise in terms of values and the needs of the collection.

- When there is agreement that an object(s) should be acquired, the collections curator will secure the concurrence of the Director of Collections and pursue negotiations and secure acquisition. . . .
- All non-purchased acquisitions with an estimated value of \$15,000 or more or are of physical size that require unusual storage space must be approved by the Collections Committee of the Commission prior to acceptance.

Based on our discussion with the Director of Collections, although the Collections Manual does not require a justification form for purchases under \$1,000 or donations by the Collections Manual, he began requiring museum staff to complete the justification forms for **all** acquisitions, not just for purchases over \$1,000, approximately two years ago. The Director of Collections wanted to ensure that all required information was included in the object file. Acquisition guidelines of the Collections Manual instruct staff to create an object file for every acquisition including information from “such items as records of all appropriate correspondence and telephone calls, research materials, appraisals, signed deeds of gift, copies of invoices, information on dealers/vendors, the names of staff making the recommendation, names of Acquisitions Committee members, object acquisition justification, and any dissenting acquisition opinions.” The justification form includes a space to document the Collections Acquisitions Committee meeting.

The Collections Manual also includes a Code of Ethics, which states, “It is particularly important that documentation should include details of the source of each object and the conditions of acceptance of it by the Tennessee State Museum.”

Additionally, in the event an object’s authenticity is questioned, museum management should have a well-documented object file to defend its acquisition.

### Condition and Cause

We tested the entire population of 167 museum acquisitions invoiced or accessioned (recorded in the log book<sup>19</sup>) during the period January 1, 2014, through December 31, 2014, to determine staff’s compliance with the *Tennessee State Museum Collections Manual*. These 167 acquisitions comprised 51 purchases and 116 non-purchase acquisitions/donations. Our testwork revealed that the museum did not always comply with the Collections Manual. Specifically, we found that

#### *Justification Forms*

- For 1 of 51 purchases (2%) and 19 of 116 donations (16%), staff did not ensure the object file contained a justification form or other documentation verifying that the object was discussed at the Collections Acquisitions Committee meeting; and
- for 9 of 97 donations with a justification form (9%), museum staff did not document the approval of all three committee members.

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<sup>19</sup> Curators within the Division of Collections record details of the artifacts received in a log book.

The Director of Collections stated that the Collections Manual requires staff to obtain approvals for acquisitions but does not explicitly state to document all required approvals. As noted above, approximately two years ago, the Director of Collections began internally requiring the use of the justification forms for all acquisitions in response to discovering that staff were not documenting required information. According to the Director of Collections, one of the nine curators was unaware he was required to complete the justification form for all acquisitions.

#### *Documentation of Approvals*

- For 7 of 50 purchases (14%) and 46 of 97 donations (47%) with a justification form, museum staff did not document concurrence of approval from the Director of Collections; and
- for 24 of 26 purchases totaling \$1,000 or greater (92%), museum staff did not document approval by the Executive Director.

For purchases or donations that did not have documentation of the Director of Collections and/or Executive Director approval, the Director of Collections and Executive Director both stated that they concurred with all purchases and donations; however, these approvals were made verbally and were not formally documented.

#### *Staff Approval*

- For 3 of 88 donations with three Collections Acquisitions Committee staff approvals documented (3%), the committee did not obtain the appropriate staff approvals as specified by the Collections Manual.

We found that for one of the three donations with improper Collections Acquisitions Committee members, the staff member recommending the acquisition did not sign as part of the Collections Acquisitions Committee. For the remaining two donations, the committee did not include a curator's approval as required. According to the Director of Collections, while the staff member recommending the acquisitions does not officially hold the title of "curator" (her title is Resources Development Coordinator), the Executive Director considers her to be an "ad hoc" curator because of her expertise in certain areas.

#### *Purchases Made Before Collections Acquisitions Committee Meeting*

- For 13 of 50 purchases with a justification form (26%), the Collections Acquisitions Committee meetings were dated after the invoice date, which indicates that museum staff purchased the items before receiving approval from the Collections Acquisitions Committee.

The Director of Collections stated that staff often prepared the purchase justification forms after obtaining approvals for purchases during the Collections Acquisitions Committee meetings. Staff prepared the justification forms and dated them the day of completion instead of providing the date of approval for the purchases, which made it appear as though the purchases were made before approvals were obtained. The Director of Collections explained that the form

may need clarity but that he does not feel comfortable changing the form without the approval of the commission since it developed the Collections Manual.

#### *Approval of Purchases over \$15,000*

- For 1 of 4 purchases totaling \$15,000 or more (25%), the Douglas Henry State Museum Commission' Collections Acquisitions Committee Chair did not provide written approval of this purchase, and the Director of Collections did not ensure the object file contained such documentation.

The Director of Collections noted in the object file that he obtained verbal approval from the chair of the commission's Collections Acquisitions Committee as well as the chair of the commission; however, the Director of Collections did not follow up to secure written approval. The Director of Collections stated he believes the memo he prepared that contains his documentation of the verbal approval was sufficient documentation of the committee chair's approval. He stated that the Collections Manual requires they obtain approval, not that they obtain written approval. When we inquired about the item with the chair of the Collections Acquisitions Committee, she stated she did not recall approving the \$22,425 item.

#### *Documentation of Authenticity*

- For 4 of 116 donations (3%), museum staff did not include documentation regarding authenticity in the object file;
- museum management did not have procedures to ensure appropriate documentation regarding an item's authenticity was included in object files; and
- museum management did not have a process to review object files to verify the files contained all the necessary documentation to support objects purchased for the museum's collection.

Based on discussion with the Director of Collections, the justification forms are an important component of documenting the reason the museum acquired an object; however, staff are only internally required to complete the form for purchases under \$1,000 or donations (as noted above) and these object files did not contain the form. In the absence of justification forms, the Director of Collections stated that these files should have contained additional documentation and that any research documentation should be in the object files; however, there are no written procedures that guide staff in preparing the object file. The Director of Collections indicated that the staff member acquiring the object for the museum is responsible for developing the object file and the staff members understand what needs to be included, but for these items, they failed to fulfill their responsibility. The omission of information went undetected because no review process exists to ensure object files are complete.

#### Effect

Proper documentation to support the acquisition of objects for the museum's collection ensures the integrity of acquisitions and protects the museum's reputation. Without proper

documentation, management cannot ensure staff acquired legitimate objects that could go on display in the museum and increase the risk that the museum will purchase items that do not fulfill the museum's mission or are otherwise inappropriate for the museum.

### Recommendation

The Executive Director and Director of Collections should ensure all object files contain documentation of compliance with the acquisition requirements contained in the *Tennessee State Museum Collections Manual*. If the manual needs to be revised to include additional descriptions or changes in policy, such as the makeup of the Collections Acquisitions Committee, the Executive Director and the Director of Collections should work with the Douglas Henry State Museum Commission to make the appropriate changes. Additionally, the Executive Director and the Director of Collections should consider implementing a process to review each object file to ensure that appropriate documentation of the acquisition process is included, and they should sign off with their approval once they are satisfied with the adequacy of the file. The Executive Director should work with the Douglas Henry State Museum Commission to develop a formal, written policy to ensure that museum staff perform and document authentication research and communications for all collections acquisitions.

The Douglas Henry State Museum Commission should ensure that management develops and implements appropriate corrective action to address all of the conditions noted in this finding. Additionally, when the Collections Manual requires purchase approval from the commission, the approval should always be provided in writing.

### Management's Comment

#### *Tennessee State Museum*

The Tennessee State Museum management does not concur with the Finding and Recommendation.

#### *Justification Forms:*

The audit notes that "for 1 of 51 (2%) purchases and 19 of 116 donations (16%), staff did not ensure the object file contained a justification form or other documentation verifying that the object was discussed at the Acquisition Committee meeting; and for 9 of 97 donations with a justification form (9%), the museum staff did not document the approval of all three committee members."

A justification form, per se, is only required by the *Collections Manual* when the purchase of an object or objects exceeds \$999. Similarly, a justification form is not required for any donation. Those acquisitions (purchases of less than \$999) or donations are required by the *Manual* to have documentation in the file indicating how and why the acquisition was made, and files without not-required justification forms would have contained other documentation.

The *Manual*, when a justification form is required, stipulates that the form should be completed, listing the names of the museum staff involved in the acquisition decision. The audit notes that “staff did not document the approval of all three committee members.” The auditors were requiring that, in addition to the names being listed on the forms, signatures of the staff involved also be included. The *Manual* does not require signatures. The forms in the file are therefore in compliance with the *Manual*.

As the audit elsewhere notes, the collections staff have been endeavoring to improve the acquisition process throughout many years. The staff wrote the *Collections Manual*, for example, and the staff was gratified to have it adopted as an official document by the Museum Commission. Since the Commission’s adoption of the *Manual*, the staff has continued to make efforts to improve record-keeping by having an in-house request for staff to complete acquisition forms for all objects coming into the collection, i.e., those purchases costing less than \$999 and all donations. This has been a test effort, to make sure that such a procedure can be followed universally for all acquisitions, e.g., that it does not prove too onerous and difficult to adhere to. The requirement has proven to be effective, and so the museum will go through the procedures to add it to the *Collections Manual*, after adoption by the Museum Commission.

The museum and its staff should be complimented for developing and making a good-faith and earnest effort to create, adhere to, and improve a professional system of acquisition accountability.

#### *Documentation of Approvals:*

The audit notes that for various acquisitions the concurrence of the Director of Collections and/or the concurrence of the Executive Director of the museum were not documented. The *Manual* requires that the Executive Director of the museum and the Director of Collections concur with an acquisition. Interviews by the auditor with the Executive Director and the Director of Collections demonstrated that those concurrences were made. However, written documentation of that concurrence is not required by the *Manual*, thus the State Museum is in compliance with the *Manual*. The museum does agree that a written confirmation of that concurrence would be advisable, and efforts will be made to adopt that procedure by the Museum Commission in the future.

#### *Staff Approvals:*

The audit notes that, for 3 of 88 donations, the acquisition justification form did not include staff as required by the *Manual*, i.e., in one instance the staff member making the recommendation was not included on the committee and on two others the recommendation did not include a curator’s recommendation. It is true that the staff member making the recommendation was inadvertently left off of the committee as specified on one donation. The museum staff would have to know the accession numbers of the other two apparent omissions in order to confirm or deny the finding.

*Purchases Made Before Acquisitions Committee Meeting:*

The audit maintains that for 13 of 50 purchases with a justification form (26%) the date of the justification form is later than the date of the invoice. As noted in the audit, this is due to the confusing design of the form, i.e., those who fill out the form often put the date that the form is filled out, rather than the date that the acquisition was agreed upon, which virtually always pre-dates the purchase.

The form will be amended to preclude this confusion, and the revised form will be presented to the Museum Commission for adoption.

*Approval of Purchases over \$15,000:*

The audit notes that for one of four (25%) of purchases exceeding \$15,000, wherein prior permission of the Collections Committee of the Museum Commission is required, the Collections Committee Chair “did not provide written approval of the purchase, and the Director of Collections did not ensure the object file contained such documentation.” However, in all four instances the museum was in compliance with the *Collections Manual*. Written approval is not required, nor is the Director of Collections required to ensure that the file contain such documentation. In the one instance highlighted by the audit (purchase at auction of three rare, pre-Civil War derringers, made in Memphis), the Chair of the Collections Committee was at the State Museum meeting with the Chair of the Museum Commission and the Executive Director of the Museum. The Director of Collections interrupted their meeting to make a presentation and request permission to bid on the derringers later in the day. All three gave their consent. The Director of Collections documented this permission in a memorandum, placed in the file. According to the audit, when the Chair of the Collections Committee was later contacted about this, she did not recall giving permission. At least four observations are in order here: (1) The Chair of the Collections Committee might have recalled the approval had the entire memorandum from the Director of Collections been read to her; (2) the Chair of the Commission was also present at the meeting and, as a member of the Acquisition Committee, is also sufficient to give permission (the *Manual* only requires approval from any “member” of the Acquisition Committee) and, upon questioning by the auditor, would likely have confirmed the meeting and approval; (3) the State Museum is fully in compliance with the policies and procedures of the *Manual* as currently written; and (4) in the future the museum agrees that a written permission from a member of the Acquisition Committee is desirable, and that change in procedure will be presented to the Museum Commission for inclusion in an amended *Manual*.

*Documentation of Authenticity:*

The audit notes that in “4 of 116 donations (3%) the museum did not include documentation regarding authenticity in the object file,” that “museum management did not have procedures to ensure adequate documentation regarding an item’s authenticity was included in an object file,” and that “museum management did not have a process to review object files contained all the documentation to support objects purchased.” Furthermore, the audit claimed that “there are no written procedures that guide staff in preparing the object file.”



It is not clear from the audit report which four donations “did not include documentation,” so these cannot be verified for this response. Nor is it clear what is meant by inadequate “documentation.” There is no doubt that the four files contain documentation. The museum does have procedures in place to ensure that proper documentation is included in the files. Quarterly acquisition reports are prepared for the Museum Commission, so object files are examined at the time that those reports are prepared in order to ensure that the file contains adequate documentation. In regard to written procedures, the *Collections Manual* contains clear and complete instructions on what is to be contained in an object file, and who should prepare the file and make certain of its thoroughness. In order to make the system even more accountable in the future, the State Museum is implementing two changes: (1) the report form provided quarterly to the Museum Commission has been amended to include an assurance that all necessary documentation is in each object file and (2) a form is being developed which will ensure that all necessary documents are in place before the object(s) go to the Registrar for accessioning.

*Recommendation:*

In general, as noted in this response, the State Museum already has a robust system in place to assure that objects coming into the collection are reviewed in a manner to ensure their appropriateness. There are improvements which can be made, and those proposed improvements are noted in this response.

*Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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**Finding 5 – Water problems within the James K. Polk Cultural Center pose a threat to the Tennessee State Museum’s artifacts that are on display or housed in storage**

**Background and Criteria**

The Tennessee State Museum’s core mission is to “procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans. . . .” The American Alliance of Museums (AAM), of which the Tennessee State Museum is a member, established standards and best practices that describe how museums should operate. In reference to collections stewardship, the AAM states,

Stewardship is the careful, sound, and responsible management of that which is entrusted to a museum’s care. Possession of collections incurs legal, social, and ethical obligations to provide proper physical storage, management and care for the collections and associated documentation, as well as proper intellectual control. Collections are held in trust for the public and made accessible for the public’s benefit. Effective collections stewardship ensures that the objects the

museum owns, borrows, holds in its custody and/or uses are available and accessible to present and future generations. A museum's collections are an important means of advancing its mission and serving the public.

The AAM's collection stewardship standards also require that "collections care policies and procedures for collections on exhibition, in storage, on loan and during travel are appropriate, adequate and documented." Also, according to the AAM, one of the standards for collections stewardship states that "the museum regularly monitors environmental conditions and takes proactive measures to mitigate the effects of ultraviolet light, fluctuations in temperature and humidity, air pollution, damage, pests and natural disasters on collections." Although the museum's collection manual addresses temperature, humidity, and light levels, in accordance with AAM standards, it does not address protection against water damage.

### Condition and Cause

Located in the basement of the James K. Polk Cultural Center, the Tennessee State Museum stores and exhibits numerous historical and contemporary artifacts. The Museum Registrar estimated that the museum has acquired 150,000 artifacts; however, only 5,000 are on display. The remaining 145,000 artifacts are in storage. Based on our inquiries with museum staff, the museum has experienced multiple instances in recent years where the storage areas housing its artifacts were exposed to water problems. Specifically, museum management provided, or we observed firsthand, examples of water damage throughout the museum and its offices; the earliest example dates back to 2003.

- Management informed us of past water leaks that affected the museum's exhibit floor, including instances that impacted artifacts on display. According to the museum's registrar, water damaged a Civil War flag and an Andrew Jackson exhibit, which prompted management to send out artifacts for restoration. Water threatened another display of Civil War flags, but the museum removed the flags and replaced them with replicas. In the third instance, the museum removed half of an antique silverware collection when staff found water behind the display.
- Management provided photographs of water damage in an equipment storage room that occurred in 2009 and 2010, resulting in damage to a work table, printer, graphics, and other equipment. The museum filed insurance claims, totaling \$34,550, to cover its losses.
- We noted two additional concerns relating to water issues throughout the museum. During our tours of the museum's storage areas, we found artifacts and storage units covered in plastic to shield the artifacts from water leaks. During a walk through the museum's offices, we observed stacks of artifacts (such as a glass-encased United States flag, a University of Tennessee Pat Summit poster, and stacks of old books, on top of cabinets), not all of which were protected by plastic coverings or another method of protection. Finally, at the January 12, 2015, Douglas Henry State Museum Commission meeting, a representative from Jones Lang LaSalle, the state's facilities

management contractor, discussed a water leak in the War Memorial Building that affected the Military Museum.

We did, however, observe water-resistant containers used to store fabrics and smaller artifacts, and artifacts that are placed on wooden bases to keep them elevated in case of flooding. Management informed us that the museum's artifact storage rooms are equipped with a water detection system. When the system's devices detect water, staff receive an alert. The water detection system is attached to the museum's old security system; the museum replaced its security system in the winter of 2014, and according to the Deputy Director, the water detection system is still operational. The museum anticipates releasing a Request for Proposal after July 1, 2015, to purchase a new water detection system. Currently, the system protects the artifact storage rooms while other areas of the museum remain vulnerable to water damage. According to museum management, the new water detection system was installed on September 9, 2015.

### Effect

Failure to deploy adequate physical safeguards to protect artifacts from water damage increases the risk that artifacts will suffer irreparable damage, causing an increase in the museum's restoration costs or in the state's insurance claims as well as a loss of Tennessee's cultural history.

### Recommendation

Until the museum moves into a new facility, museum management should continue to work with Jones Lang LaSalle to address water problems as they arise. Management should also take steps to ensure all artifacts are adequately protected from damage, including updating their collections manual to address water damage.

As part of the compilation and review of museum management's annual risk assessment, the Douglas Henry State Museum Commission and museum management should ensure that all risks to artifacts, including the risk of water damage, are appropriately addressed and that museum management has implemented internal controls to mitigate the risks.

### Management's Comment

#### *Tennessee State Museum*

The Tennessee State Museum management does not concur with the Finding.

The ability of Tennessee State Museum (TSM) staff members to protect artifacts from water leaks and the consequential impact of such incidents is influenced by many factors beyond our control.

The museum's facility is in three basement floors of the James K. Polk Center and has above it a twelve-story office tower and the Tennessee Performing Arts Center (three major theaters with adjacent large public restrooms, etc.). The Tennessee General Services

Administration operates and administers the Polk Center, including the building's plumbing and HVAC systems. The TSM is a tenant of the General Services Administration and has no control over the pipes, HVAC ducts, etc. within the museum's facility. Throughout the museum storage and exhibit areas, there are numerous overhead water and sewage pipes, steam pipes, and air conditioning ducts related to the Polk Center's plumbing and HVAC systems.

The museum staff has always been proactive in taking steps to mitigate the threats posed by water leaks to the artifacts in the collection. In October 2014, the museum completed a Save America's Treasures grant project (\$400,000 in federal funds). This project focused on rehousing artifacts in new storage materials that would better protect them from environmental threats such as water leaks. For example, the museum purchased numerous new storage cabinets which are water resistant. As part of the grant, museum staff covered rolled textiles such as quilts in Tyvek which protects them from both water and light. In conjunction with this grant, museum staff rehoused 54,927 artifacts, which is approximately one-third of the collection. In areas that are particularly prone to leaks, storage racks are covered with plastic sheeting as a preventative measure.

In August 2011, in response to museum staff concerns regarding the potential of mold resulting from water leaks, the Department of General Services contracted Quantum Environmental and Engineering Services (QE2) to perform an Indoor Air Quality Investigation in the artifact storage areas. Museum staff has followed the recommendations provided by QE2 to mitigate mold problems and any subsequent issues.

In September 2015, the museum completed a project which upgraded the alarm system used for detecting water leaks within collections storage areas, adding additional alarm units covering more areas. In addition to the alarm units, security officers monitor for leaks in both gallery spaces and collections storage areas. Collections department staff are also very aware of the need to be vigilant regarding water leaks.

*Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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**Finding 6 –Tennessee State Museum management lacked internal controls to ensure the security of the alcoholic beverages stored on-site, increasing the risk of theft**

**Background**

Every year the Tennessee State Museum exhibits art and historically significant objects for a short period of time for the purpose of diversifying its collection from the existing items on display. Prior to the opening of these exhibits, the museum management hosts an invitation-only reception for major donors and other affluent members of the community. The Tennessee State Museum Foundation finances these receptions by paying for goods and services, including

alcoholic beverages, bartenders, and servers. According to museum management, the foundation receives funding from a wholesaler of wine and spirits to purchase alcoholic beverages (including liquor, wine, and beer) from various retailers, and Tennessee State Museum funding is not used to purchase alcoholic beverages.

Despite the foundation financing the purchase of alcoholic beverages, we noted that the alcoholic beverages are stored on-site, and the inventory is maintained by museum staff. Based on museum management's calculation, the value of the wine and liquor inventory stored at the museum is approximately \$25,200 (based on retail cost).<sup>20</sup> We also noted that the Director of External Affairs is responsible for ordering and maintaining a record of the alcoholic beverage inventory. Additionally, the museum's Director of External Affairs, the Deputy Director, and the Museum Foundation Manager (a foundation employee) have been assigned keys to access the area where the alcoholic beverages are stored.

### Condition

Based on our observations and inquiries with applicable Tennessee State Museum personnel, we noted multiple internal control deficiencies related to museum management's failure to physically safeguard the alcoholic beverage inventory; maintain adequate recordkeeping of the inventory; and segregate and assign back-up employees to maintain the inventory. Specifically, we found the following:

- *Lack of Physical Safeguards:* The museum's Deputy Director failed to physically safeguard her key to alcoholic beverages' storage room; as a result, the Administrative Services Assistant 2 borrowed the Deputy Director's key without her knowledge or approval to show us the room. Also, we observed that the museum management and staff stored some wine and beer in a separate locked refrigeration unit, which had a glass front and was located in a publicly accessible area.
- *Inadequate Segregation of Duties:* In addition to having access to the alcoholic beverage inventory, the Director of External Affairs was responsible for ordering alcoholic beverages and recordkeeping, providing the opportunity to commit and conceal theft of inventory.
- *Failure to Designate Back-up Employees:* The Director of External Affairs, who is the only employee responsible for taking inventory, does not have a designated back-up employee assigned to perform inventory recordkeeping duties when she cannot.
- *Unwritten Policies and Procedures:* Museum management did not maintain any written policies and procedures governing the ordering, recordkeeping, and physical inventory of alcoholic beverages.
- *Lack of Inventory Records:* The Director of External Affairs did not maintain documentation to support current inventory levels; therefore, museum management

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<sup>20</sup> Museum personnel did not count beer because it expires faster than the other types of alcohol. The museum usually disposes of remaining beer after an event or just before the next event.

cannot perform a periodic reconciliation of the alcoholic beverage inventory to items purchased and served to promptly identify loss and theft of the inventory.

- *Lack of Other Documentation:* The Director of External Affairs failed to provide us with any documentation, such as inventory control sheets, showing the quantity and type of alcoholic beverages that are distributed and returned by each bartender during receptions.

## Criteria

To aid management in their prudent understanding of proper internal controls, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (the "Green Book"), which contains concepts that can be used by all levels of governments, describes best practices when establishing a framework for an effective internal control system in any entity. We used the following guidance from the Green Book as best practices:

- *Lack of Physical Safeguards:* "Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use."
- *Lack of a Back-up Employee:* "Management defines succession plans for key roles, chooses succession candidates, and trains succession candidates to assume the key roles."
- *Unwritten Policies and Procedures:* "The Green Book includes minimum documentation requirements as follows. . . . Management documents in policies the internal control responsibilities of the organization."
- *Lack of Other Documentation:* "Documentation is a necessary part of an effective internal control system. . . . Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system."

The Government Accountability Office's Executive Guide, entitled *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, released in March 2002, provides a framework to assist managers in improving the accuracy and reliability of government's inventory by identifying key factors and best practices used by the private industry for inventory control. We used the following best practices from this guide to identify the internal control deficiencies in this finding:

- *Inadequate Segregation of Duties:* "Personnel approving transactions that affect on-hand inventory balances should not be responsible for the physical custody of the inventory or recording transactions."

- *Lack of Inventory Record:* “Detailed asset records are necessary to help provide for the physical accountability of inventory and the efficiency and effectiveness of operations.”

### Cause

Museum management was unaware of the internal control deficiencies which are addressed in this finding. Once we informed management, they immediately began implementing corrective action by performing a documented inventory count of the liquor and wine. Management also began drafting written procedures for ordering, obtaining, and maintaining an inventory of alcoholic beverages.

### Effect

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

### Recommendation

The Douglas Henry State Museum Commission should ensure that museum management develops and implements adequate internal controls over the alcoholic beverage inventory stored at the museum and takes corrective action for all conditions noted in this finding.

Museum management should

- maintain a sufficient record of the alcoholic beverage inventory, which includes current and historical balances of all inventory and documentation detailing the locations of this inventory;
- segregate recordkeeping duties from the duties of ordering and obtaining these items;
- assign an individual independent from ordering, obtaining, and recordkeeping of alcoholic beverage inventory to perform a reconciliation of recorded to actual alcoholic beverage inventory;
- ensure that all alcoholic beverage inventory is physically safeguarded;
- ensure that all policies and procedures for ordering, obtaining, and recording alcoholic beverage inventory are written; and
- assign a knowledgeable employee to serve as a back-up designated to conduct and record inventory.

## Management's Comment

### *Tennessee State Museum*

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

Following discussion with audit team staff members, museum staff immediately began working with the Tennessee State Museum Foundation Controller and performed a comprehensive inventory of all alcohol products on hand. Written policies and procedures were crafted and implemented. Staff reassignments were made which included naming back-up staffing for key functions as well as creating an appropriate separation of duties in the performance of these roles.

### *Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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## **INFORMATION SYSTEMS**

The Tennessee State Museum uses two main information systems, Edison and Argus, in the course of its operations.

- Edison – Management and staff began using Edison in 2008 for payroll and human resources and in 2009 for fiscal functions. The Department of Finance and Administration houses a separate Edison group, and museum personnel coordinate with the Department of Human Resources to resolve access and other issues.
- Argus – Initially implemented in 1993 and purchased from a non-state vendor, Argus serves as the museum's collections management system. The museum does not have a dedicated information technology staff due to budget cuts; therefore, the museum's Assistant Registrar and Associate Registrar oversee Argus application controls.

Our objective in reviewing information systems was to determine whether museum management followed state information systems security policies and industry best practices regarding system controls. To achieve our objective, we compared management's internal control activities to assess adherence to state information systems security policies and information systems industry best practices.

Based on the procedures performed, Tennessee State Museum management did not follow state information systems security policies and industry best practices (see Finding 7).



**Finding 7 – The Tennessee State Museum did not provide adequate internal controls in four specific areas**

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

**Recommendation**

The Douglas Henry State Museum Commission and museum management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in these areas. 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**

*Tennessee State Museum*

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

*Douglas Henry State Museum Commission (DHSMC)*

The DHSMC Chairman and DHSMC Audit Committee Chairman have reviewed the museum management responses and concur with management.

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**EXPENDITURES**

For our audit period (January 1, 2014, through December 31, 2014), the Tennessee State Museum incurred expenditures of \$3,889,573. Museum personnel use different methods, such as competitive bidding, to make required purchases and can elect to use the state payment cards to actually pay for the goods. For items that cannot be purchased on the state payment card and for travel advances, museum staff may also use the foundation credit card. The museum has agreements with the Tennessee Department of Finance and Administration’s Division of Centralized Accounting, the Tennessee Commission on Children and Youth, and the Tennessee Department of Veterans Services to assist with expenditure processing, which encompasses budget monitoring.

Special and investigations reports released by the Comptroller’s Office identified several deficiencies involving the museum’s expenditure controls.

1. The January 2011 special report entitled “Review of Expenses of the Tennessee State Museum Foundation and Other Matters Involving the Foundation and the Tennessee State Museum” specifically pinpointed the following weaknesses:
  - a. Expenses associated with state travel for museum personnel were sometimes initially paid with the Tennessee State Museum Foundation credit card, and then the museum employee would reimburse the foundation after submitting a state travel claim. This practice increased the risk that the employee would improperly receive reimbursement from both the foundation and the state. Museum personnel must travel for speaking engagements, conference attendance, and exhibit preparation.
  - b. Due to management’s inadequate design of telecommunication controls, management and staff made \$378 in personal calls at the museum’s expense. The personal calls remained undetected because, although museum staff had performed monthly reviews in prior years, management did not properly reassign the reviews once the reviewers left employment with the museum. Museum personnel continued to use state telecommunications equipment, including cellular phones, throughout our audit period.
2. In an August 2014 investigations report, the Comptroller’s Office described a former Administrative Services Assistant 2’s multiple expenditure infractions.
  - a. She used an Enterprise CarShare program rental car for personal purposes during the period April 1, 2011, through January 31, 2014, resulting in \$12,416 improperly charged to the museum. The State of Tennessee created the Enterprise CarShare program to allow all employees access to a vehicle while conducting state business.
  - b. The former Administrative Services Assistant employed a scheme to falsify 26 collection piece invoices totaling \$49,477 for payment to her personal accounts. In executing this scheme, she photocopied the signature approval of museum officials.

In light of these previously identified risks, our objectives in reviewing expenditures were to determine whether

- in response to the prior finding, Tennessee State Museum management improved Enterprise CarShare program expenditure controls to prevent employees from using vehicles for personal gain and whether expenditures incurred from July 1, 2014, through December 31, 2014, were necessary and reasonable;
- museum management strengthened travel claim controls in response to the prior finding and whether management and staff ensured claims were paid in accordance with applicable travel regulations and were reasonable and necessary;

- museum management corrected the prior finding involving inadequate controls over state telecommunications equipment and personal calls made on state cellular phones;
- the museum's state payment card controls were operating as described by management, whether the cardholders assigned did not represent an excessive number, and whether management and staff complied with pertinent policies and procedures for purchases;
- museum management had a written agreement in place governing the use of the Tennessee State Museum Foundation credit card, including the circumstances under which the foundation may request reimbursement from the state;
- museum management properly monitored budget overages; and
- the number of staff possessing signatory authority for the Executive Director and Deputy Director was reasonable, resulting in correction of the prior finding.

For each of our objectives, we inquired with relevant museum personnel about internal controls designed and implemented. We also studied the expenditure-related findings noted in the Office of the Comptroller of the Treasury's January 2011 special report and August 2014 investigations report and noted any improvements management made in response to those findings. We examined the museum's Enterprise CarShare program monthly billings from July through December 2014, a condensed period designed to give management time to restructure controls following the investigations report.

In addition, we reviewed the Department of Finance and Administration's Policy 8, "Comprehensive Travel Regulations." We obtained an expenditures listing from our audit period of January 1, 2014, through December 31, 2014, and subsequently extracted all 220 Tennessee State Museum employee travel payments (totaling \$10,818). We tested all payments to evaluate management and staff's adherence to statewide policies, along with the reasonableness and necessity of the travel. After compiling a list of instances during our audit period in which the museum first used the foundation credit card for travel payments and later repaid the foundation, we ensured that the museum employees did not also directly receive reimbursement.

For the phone objective, we researched the Department of Finance and Administration's Policy 17, "Telecommunications Services"; the Internal Revenue Service website; and the museum's risk assessment dated December 15, 2014. We requested that employees review a listing of all 2,899 state cellular phone calls (with associated expenditures of \$810) during our audit period and identify any personal calls.

We inspected the *State of Tennessee State Payment Card Cardholder/Approver Manual*. We counted the museum's state payment cardholders and assessed the reasonableness of the number of cards assigned. Regarding compliance with policies and procedures, one procedure we performed involved determining whether (a) the cardholders were authorized and (b) the required payment card forms and agreements were on file and included the proper signatures. From a listing of 136 payment card transactions valued at \$30,778 for our audit period, we

generated a nonstatistical, random sample<sup>21</sup> of 60 purchases amounting to \$13,467. We reviewed purchases to determine if they were made from appropriate vendors, were adequately supported, and complied with the state payment card manual. For each month included in our sample, we tested whether cardholders reconciled payment card statements to the transaction logs and attached the proper documentation and whether cardholders and approvers signed the logs.

We gathered examples of actual-to-budget comparisons used by museum management to evaluate budget overage monitoring procedures, as well as documentation for the Executive Director and Deputy Director positions to assess the reasonableness of the number of staff possessing expenditure signatory authority.

Based on procedures performed, we determined that

- while management strengthened Enterprise CarShare program controls, and expenditures incurred were reasonable and necessary, the museum did not adequately segregate purchasing procedures (see Finding 3 in the Inventory section on page 37);
- travel claim payments were reasonable and necessary although controls still require improvement, including those related to compliance with travel regulations (see Observation 6);
- the fees associated with a lost cellular phone and personal calls that management and staff made were insignificant, resulting in resolution of the prior finding;
- the museum's state payment card controls were operating as described by management, that management did not assign cards to an excessive number of staff, and that management and staff complied with applicable purchase policies and procedures;
- the museum did not have a written agreement for the use of the Tennessee State Museum Foundation credit card (see Observation 6);
- the museum properly monitored budget overages; and
- management had corrected the prior finding involving signatory authority.

**Observation 4 –Tennessee State Museum management lacked adequate controls for using the Tennessee State Museum Foundation credit card and did not always comply with statewide travel regulations**

Tennessee State Museum employees travel for various reasons, including giving lectures to professional organizations, setting up historical exhibitions across the state, and representing the museum at special events. Travel expenses may include lodging, meals, mileage, parking,

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<sup>21</sup> We determined that nonstatistical audit sampling was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report.

airfare, and other miscellaneous items considered reasonable and necessary in the course of travel. The Tennessee State Museum Foundation, a nonprofit 501(c)(3) organization, provides financial support to the museum, which encompasses allowing museum personnel to charge travel expenses on the foundation credit card. The foundation also purchases artifacts as well as employee get-well gifts on behalf of the museum. During our testwork, we discovered that the museum did not

- enter into a written agreement with the foundation governing museum staff's use of the foundation credit card, or
- fully comply with statewide travel regulations regarding lodging and per diem expenses.

#### No Written Agreement Governing the Use of the Foundation Credit Card

Based on our inquiries, the following three museum employees have access to the Tennessee State Museum Foundation credit card: the Deputy Director (\$5,000 limit), the Director of External Affairs (\$5,000 limit), and the Director of Public Programs (\$10,000 limit). According to the Deputy Director, the museum uses the credit card for purchases that cannot be made with a state payment card. For travel specifically, museum employees generally pay for travel expenses in advance with their own personal funds, and then they prepare travel claims to request reimbursement from the museum through Edison. Some employees, however, assert to management that they lack the financial means to pay in advance for these travel expenses. Since the museum does not offer travel advances to its employees, management will use the foundation credit card to pay for travel expenses incurred by employees who cannot use personal funds. The foundation will, in turn, submit an invoice to the museum for reimbursement of expenses charged to the foundation's account.

Despite this arrangement, museum management had not formally documented their understanding with the foundation that specifies the types and limitations of allowable reimbursement expenses. Best practices, including from the Government Accountability Office's *Key Considerations for Implementing Interagency Collaborative Mechanisms*, mandate that entities enter into a written agreement when one entity continually reimburses another. The Deputy Director said that the Tennessee State Museum had never considered entering into such an understanding with the foundation for credit card usage, but she agreed that formalizing their arrangement would improve internal controls. The absence of a documented understanding increases the risk that museum management will improperly reimburse the foundation and/or will use the credit card to circumvent existing controls and violate state purchasing policies. A written agreement would protect both parties.

#### Noncompliance with Statewide Travel Regulations

We tested all 220 travel expenses (totaling \$10,817) claimed by museum employees for the period January 1, 2014, through December 31, 2014, which included 83 lodging expenses in the amount of \$5,883 and 54 per diem expenses for meals and incidentals in the amount of \$2,279. Our testwork revealed that for 7 lodging expenses (8%) and 2 per diem expenses (4%), Tennessee State Museum management and staff reimbursed the employee for an amount

exceeding the maximum allowed per statewide travel regulations. See the tables below for details.

**Table 2  
Lodging Overages**

	<b>Expense Amount</b>	<b>Maximum Amount Allowed</b>	<b>Overage</b>	<b>Amount Reimbursed by Employee Following Our Inquiries</b>	<b>Remaining Overage</b>
<b>Item 1</b>	\$99	\$83	\$16	-	\$16
<b>Item 2</b>	\$99	\$83	\$16	-	\$16
<b>Item 3</b>	\$138	\$118	\$20	-	\$20
<b>Item 4</b>	\$138	\$118	\$20	-	\$20
<b>Item 5</b>	\$138	\$118	\$20	-	\$20
<b>Item 6</b>	\$439	\$279	\$160	-	\$160
<b>Item 7</b>	\$471	\$311	\$160	-	\$160
<b>Totals</b>	\$1,522	\$1,110	\$412	-	\$412

**Table 3  
Per Diem Overages**

	<b>Expense Amount</b>	<b>Maximum Amount Allowed</b>	<b>Overage</b>	<b>Amount Reimbursed by Employee Following Our Inquiries</b>	<b>Remaining Overage</b>
<b>Item 1</b>	\$56	\$42	\$14	\$14	-
<b>Item 2</b>	\$56	\$42	\$14	\$14	-
<b>Totals</b>	\$112	\$84	\$28	\$28	-

Based on discussion with museum personnel, we also concluded that 2 out of 7 lodging expenses, which were charged to the foundation credit card (29%) and served as de facto travel advances, were not out of financial necessity.

The Department of Finance and Administration’s Policy 8, “Comprehensive Travel Regulations,” lists the applicable maximum amounts allowable for lodging rates and meals and incidentals. The policy also states, “Travel advances are available only under extraordinary circumstances.”

According to the Deputy Director and the Administrative Services Assistant 2, employees could not obtain lodging at the government rate. They were unable, however, to provide sufficient documentation to illustrate why lodging was not available at the government rate.

They added that the per diem overages were an oversight and that the travel advances paid on the foundation credit card were in error.

Failure to implement the proper controls over travel expenditures results in management exceeding established travel reimbursement rates on lodging and per diem and the use of the foundation credit card for reasons other than necessity.

We recommend that Tennessee State Museum management enter into a documented understanding with the Tennessee State Museum Foundation that specifies the types and limitations of allowable reimbursable expenses. A copy of this understanding should be provided to all parties within both entities who participate in the reimbursement process. Furthermore, museum employees should follow statewide travel regulations and should submit documentation to management illustrating that the foundation credit card was only used for travel advances due to financial necessity.

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## REVENUES

In addition to state appropriations, the Tennessee State Museum receives revenue from various other sources. Section 4-12-303, *Tennessee Code Annotated*, for example, states, “It is the intention and purpose of the general assembly that the director of the state museum be empowered to accept donations of funds and objects for the benefit of the Tennessee state museum.” The museum staff provide for revenue collection through two donation boxes in response to this state law:

**Table 4**

<b>Location</b>	<b>Approximate Amount Received</b>
James K. Polk Cultural Center, Floor D	\$75-130 monthly
War Memorial Building, Military Branch	\$200-450 monthly

For both locations, the donation amount fluctuates greatly depending on a number of factors, such as downtown events and the number and demographics of attendees. Donations come in the form of cash and, on rare occasions, checks.

Furthermore, the museum management occasionally charges fees to the public for large traveling exhibits that are very costly to produce. Since the Tennessee State Museum Foundation must often raise funds to host the exhibits, the museum remits any funds collected to the foundation to offset foundation expenses. The last exhibit for which the museum management charged a fee was the Rau Collection, which was on display from late 2005 through early 2006.

The Tennessee State Museum also received federal revenue from the U.S. Department of the Interior, drawing down \$76,392 in grant funds during the period January 1, 2014, through December 31, 2014. Along with federal grants, the museum may receive restricted revenue in

the form of donations from individuals and municipalities that are earmarked for a specific purpose.

Our objectives in reviewing revenues were to determine whether

- internal controls over the collection of donation box revenues were operating as described by management; and
- the museum used restricted revenues other than federal grants for their specified purpose.

We reviewed the museum’s written procedure, inquired with museum personnel, and performed a walkthrough of the donation box collection process. Additionally, we interviewed the Department of Finance and Administration’s Centralized Accounting personnel to gain an understanding of their role in recording donation box revenues.

To determine if the museum received restricted revenues other than federal grants, we held discussions with museum management and the Tennessee Commission on Children and Youth Budget Director, who assists the museum with fiscal matters. We also analyzed revenue information for January 1, 2014, through December 31, 2014.

Based on procedures performed, we determined that

- donation box collection controls were operating as described by management; and
- the museum did not receive any restricted revenues other than federal grants.

## **STATUS OF THE PROPOSED NEW TENNESSEE STATE MUSEUM FACILITY**

Primarily housed in the basement of the James K. Polk Cultural Center since 1981, with military collections residing in the War Memorial Building, the Tennessee State Museum has gained momentum for the development of a new facility.

### **Timeline of Major Events**

<b>Year</b>	<b>Event</b>
<b>2008</b>	The Tennessee State Museum contracted with E. Verner Johnson and Associates as architectural planners and the B.R.C. Group as exhibition consultants to develop plans for relocation to a new stand-alone facility at the Bicentennial Mall. <sup>22</sup> The estimated cost of the proposed new facility totaled \$350 million. Due to statewide budget cuts and the significant costs associated with the construction project, the General Assembly decided not to provide funding at that time.
<b>2012</b>	According to its meeting minutes, the Douglas Henry State Museum Commission inquired about the status and possibility of a new museum facility, sending a letter to

<sup>22</sup> The Bicentennial Mall is an urban state park located in downtown Nashville, Tennessee.



	Governor Bill Haslam to reflect the commission's commitment to moving forward.
<b>2013</b>	<p>As part of its budget hearing before the Senate Finance Committee, the museum incorporated a brief presentation on the state's master plan for the Bicentennial Mall, including the construction of a new museum facility. The Senate Finance Chair responded by appointing a subcommittee (the New Museum Task Force) to create a new master plan for the museum encompassing the following: site and location analysis and the development of a conceptual operating plan and a capital funding plan.</p> <p>The subcommittee received \$475,000 in state appropriations to carry out these tasks. The updated estimated budget for the new museum building totaled \$300 million, with 25% of the cost raised through private funding.</p> <p>The New Museum Task Force submitted a Request for Qualifications for a museum planner and fundraising consultant and ultimately selected Lord Cultural Resources and Marts and Lundy, respectively.</p>
<b>2014</b>	Meeting minutes showed that the Douglas Henry State Museum Commission approved the New Museum Task Force Report.
<b>2015</b>	<p>Lord Cultural Resources submitted the final master plan for the new museum facility on March 31, 2015. As of May 2015, Marts and Lundy's fundraising report remained in progress.</p> <p>The state budget passed by the General Assembly and signed by Governor Haslam included a commitment to fund a new \$160 million museum facility, \$40 million of which the Tennessee State Museum Foundation would raise through private funds.</p> <p>At the July 13, 2015, meeting of the Douglas Henry State Museum Commission, the Governor's Chief of Staff outlined the process for raising money and constructing the museum. He noted that Governor Haslam proposed creating a steering committee to oversee the project and a New State Museum Campaign Cabinet to raise the private funds needed.</p>

### Planned Future Events

The Chief of Staff also provided the following tentative dates for future museum events scheduled to occur in 2015:

- July 27: The Tennessee State Museum Foundation Board formally approves the fundraising and project coordination plan.
- August 1: The Department of General Services contracts with a construction project manager.
- August 13 or 14: The project steering committee conducts its first meeting.
- September 1: The fundraising team is secured.

- September 15: The Department of General Services contracts with a building designer.
- Late October, early November: The New State Museum Campaign Cabinet holds its kickoff dinner.
- November 1: The Department of General Services contracts with a private construction manager and exhibit designer.
- November 2015 through February 2016: The campaign cabinet secures gifts.

We learned from the museum's Deputy Director that the new facility is scheduled to open in late summer 2018.

### Planning Goals of New Facility

Lord Cultural Resources' final master plan describes three overarching planning goals:

1. The new facility will enable the museum to improve the visitor experience and engage the public in the history and significance of the State of Tennessee through collections, exhibitions, programs, and events.
2. The museum will display its distinguished collection of objectives, artifacts, art, and manuscripts from all eras of Tennessee's history and will provide facilities for storage and care of the collection for long-term preservation and use.
3. The facility will offer new opportunities for learning through spaces for programming, lectures, symposia, and interactive learning opportunities for teachers, students, and the general public.

### Specifications of New Facility

Additionally, the final master plan contains the following specifications:

- The new facility will comprise two buildings:
  - one primary building offering exhibitions, educational programs, and all visitor services at the Bicentennial Mall; and
  - the other consisting of an off-site non-public Collections Center that will provide storage, documentation, and conservation of the museum's collections; exhibit preparation; and related offices and workshops.
- The primary building size will total approximately 129,000 gross square feet.
- The primary building ground floor will be at least one foot above the 2010 flood level and 5 feet above the 100-year flood level.

- The Military Museum in the War Memorial Building will be closed, with collections integrated into the new museum exhibits.
- The new facility will feature three types of galleries:
  - Permanent Collection History Galleries;
  - Temporary Exhibition and Changing Galleries; and
  - Specialized Galleries, including the Children’s Gallery, and future galleries such as the Red Grooms Tennessee Foxtrot Carousel Pavilion.
- The interpretive focus of the permanent exhibits will be from natural history and prehistory of Tennessee to the present day, with thematic, engaging, and interactive but artifact- and art-rich experiences.
- Flexibility will be inherent in the permanent collection exhibition experience to allow for rotation and refreshing of content, and facilities will support regular change in these spaces.

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## APPENDICES

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### Appendix 1 Title VI and Other Information

Title VI of the Civil Rights Act of 1964 states that “no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance”

The Tennessee Human Rights Commission (THRC) issues a report, *Tennessee Title VI Compliance Program* (available on its website), that details agencies’ federal dollars received, Title VI and other human rights related complaints received, whether the agency’s Title VI implementation plan was filed timely, and any THRC findings taken on an agency. According to the THRC’s fiscal year 2014 report, the Tennessee State Museum filed its annual implementation plan on October 1, 2013, which was the due date. During the reporting period, the THRC received no complaints regarding the museum. Additionally, THRC issued no findings on its review of the museum’s implementation plan.

THRC’s fiscal year 2014 report indicated the commission completed an on-site compliance review of the Tennessee State Museum. In this review, the THRC issued four findings in two out of ten areas of review and one observation in one area. The THRC issued the following findings:

#### Limited English Proficiency (LEP) policy

- While museum personnel had a good understanding of the museum’s LEP policy overall, some staff members were not clear on which other staff members possessed fluency in a foreign language.
- The museum did not post its LEP policy in an area visible by the general public.

#### Training

- Museum security guard personnel did not fully understand Title VI, including the protected classes under the statute.
- The museum did not display Title VI posters in its public domain areas.

The THRC also issued the following observation:

#### Public Notice and Outreach/Provision of Technical Assistance

- Given the large Hispanic population within the Nashville Metropolitan area, the museum should at least publish its *Tour Guide* book in Spanish.

According to the THRC, the Tennessee State Museum had corrected all the identified findings and observation as of April 17, 2015.

The museum received \$86,500 from the federal government in fiscal year 2014.

See the next page for the Tennessee State Museum's staff and the Douglas Henry State Museum Commission's member ethnicity and gender demographics.

**Appendix 2**  
**Tennessee State Museum**  
**Staff Positions by Gender and Ethnicity**  
**March 25, 2015**  
**(Source: State Audit Information Systems)**

Title	Gender		Ethnicity		
	Male	Female	Asian	Black	White
Administrative Services Assistant 2	-	3	-	1	2
Administrative Services Assistant 4	-	1	-	-	1
Graphics Designer 1	1	-	-	-	1
Museum Assistant Chief Per Specialty	-	1	-	-	1
Museum Assistant Registrar	1	1	-	-	2
Museum Chief Per Specialty	3	4	-	1	6
Museum Curator	7	3	-	-	10
Museum Curatorial Assistant	2	-	-	-	2
Museum Deputy Director	-	1	-	1	-
Museum Director	-	1	-	-	1
Museum Preparator	3	-	1	1	1
Museum Program Assistant	1	4	-	-	5
Museum Program Coordinator	1	-	-	-	1
Museum Registrar	1	-	-	-	1
Museum Resource Development Coordinator	-	3	-	-	3
<b>Totals</b>	<b>20</b>	<b>22</b>	<b>1</b>	<b>4</b>	<b>37</b>

**Appendix 3**  
**Douglas Henry State Museum Commission**  
**Members by Gender and Ethnicity**  
**March 25, 2015**  
**(Source: Tennessee State Museum)**

	Gender		Ethnicity		
	Male	Female	Asian	Black	White
<b>Total</b>	8	5	-	1	12

**Appendix 4**  
**Performance Measures Information**  
(This information is unaudited.)

As stated in the Tennessee Governmental Accountability Act of 2013, “accountability in program performance is vital to effective and efficient delivery of government services, and to maintain public confidence and trust in government.” In accordance with this act, all executive branch state agencies are required to submit annually to the Department of Finance and Administration a strategic plan and program performance measures. The Tennessee State Museum priority goals, as reported for the 2014 calendar year, are as follows:

**Performance Standards and Measures**

Performance Standard 1: Procure, preserve, and interpret objects related to TN history and culture

*Purpose of the Goal:* Procure, preserve, exhibit, and interpret objects which relate to the social, political, economic, and cultural history of Tennessee and Tennesseans.

1. The museum will conduct an annual inventory of the 180 sensitive artifacts (valued at \$25,000 or greater) in the collection.
2. A cyclical inventory of non-sensitive (valued at less than \$25,000) artifacts will be performed each year.
3. The museum will offer a minimum of 3 temporary/changing exhibitions of cultural significance annually.

<i>Measuring the Goal:</i> Conduct an annual inventory of 180 sensitive artifacts (valued at \$25,000 or greater) in the collection and a cyclical inventory of non-sensitive (valued at less than \$25,000) artifacts will be performed each year.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	3,000	3,842	180

<i>Measuring the Goal:</i> Number of temporary changing exhibitions dedicated to Tennessee or cultural significance.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	10*	7	3

Performance Standard 2: Provide exhibitions and programs.

*Purpose of the Goal:* Provide exhibitions and programs for the educational and cultural enrichment of the citizens of the state.

1. The museum will serve a minimum of 100,000 visitors annually to the State Museum and the Tennessee State Capitol.
2. The museum will conduct a minimum of 2 teacher workshops annually.
3. The museum will provide a minimum of 20 exhibitions and/or site visits assisting smaller museums and historic house across the state.
4. The museum will serve a minimum of 20,000 schoolchildren statewide through its Travel Trunks outreach program.

<i>Measuring the Goal:</i> Number of visitors who toured museum facilities for educational or cultural enrichment.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	157,104*	146,216	100,000

<i>Measuring the Goal:</i> Number of teacher workshops held.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	4	7	2

<i>Measuring the Goal:</i> Number of exhibitions and/or site visits assisting smaller museums and historic houses across the state.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	22*	29	20

<i>Measuring the Goal:</i> Number of school children served statewide through its Travel Trunks outreach program.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	34,452	25,999	20,000

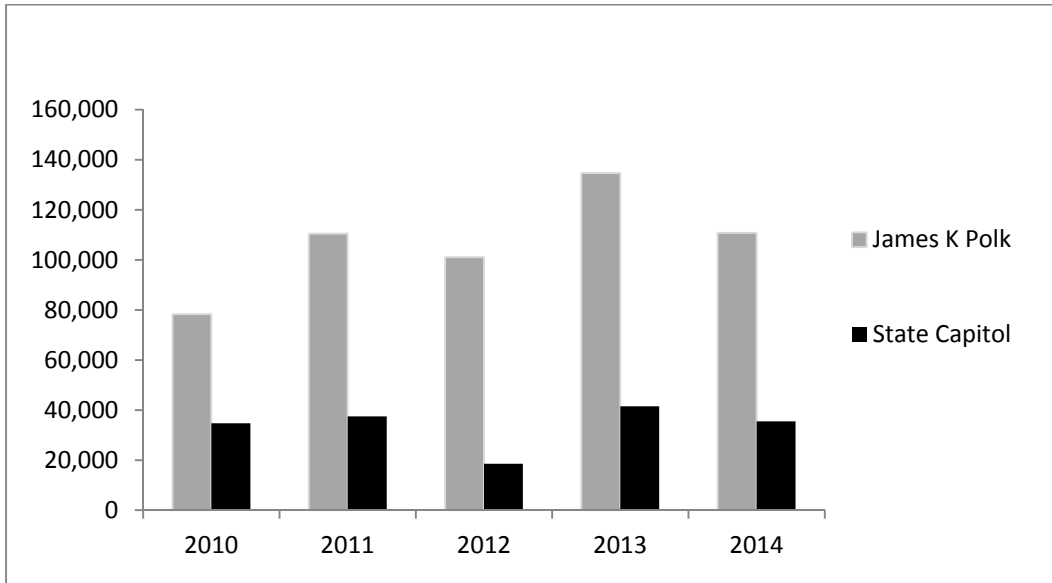
<i>Measuring the Goal:</i> Number served statewide through its Travel Trunks outreach program.			
	<b>Baseline</b>	<b>Current</b>	<b>Target</b>
Units	26,208*	28,522	20,000

\* Due to the methods museum personnel use to maintain data, this baseline is for the period July 1, 2013, through June 30, 2014, rather than for the 2013 calendar year.



**Appendix 5**  
**Tennessee State Museum and Capitol Attendance**  
**Annual Number of Museum Visitors**  
**2010 – 2014**

(Source: Tennessee State Museum)  
(This information is unaudited.)



**Appendix 6**  
**Tennessee State Museum**  
**Summary of Awards Received**  
**(Source: Tennessee State Museum and Press Releases)**  
(This information is unaudited.)

The Tennessee State Museum received the National Leadership in History Award from the American Association of State & Local History (AASLH) in September 2014. The AASLH presents the “Leadership in History Awards to establish and encourage standards of excellence in the collection, preservation, and interpretation of state and local history in order to make the past more meaningful to all Americans.” The TSA received this award for the museum’s *Freedom’s Call* statewide essay contest held in conjunction with the presentation of the Emancipation Proclamation at the museum in 2013.

Additionally, the Tennessee State Museum received five awards at the Tennessee Association of Museums (TAM) awards ceremony held in March 2014. The TAM award program’s purpose is “to recognize, encourage, and promote excellence within the activities of the Tennessee museum community and organizations in related fields of interest.” The following are the awards which were received during this ceremony:

1. “Three Part Harmony” received an Award of Excellence in the Temporary Exhibit category.
2. The exhibit “Discovering the Civil War” was recognized with an excellence award for public relations and marketing.
3. The museum staff’s *Freedom’s Call* essay contest garnered an excellence award in the Educational Programs category.
4. A summer lecture series related to the “Discovering the Civil War” exhibit received an Award of Commendation in the Special Events category.
5. The museum, along with Nissan North America, won an award of excellence for their joint efforts to create a “smart” classroom<sup>23</sup>.

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<sup>23</sup> Smart classrooms are enhanced by technology.