

Department of Personnel

**For the Years Ended
June 30, 2000, and June 30, 1999**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

October 2, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Dorothy Shell, Commissioner
Department of Personnel
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Personnel for the years ended June 30, 2000, and June 30, 1999.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
01/066



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COMPTROLLER OF THE TREASURY
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October 2, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Personnel for the years ended June 30, 2000, and June 30, 1999.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Personnel's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Personnel is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Personnel's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Personnel
For the Years Ended June 30, 2000, and June 30, 1999

AUDIT SCOPE

We have audited the Department of Personnel for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, expenditures, sick leave bank, payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The Department Did Not Promptly Detect and Accurately Report Disposition of Equipment

During the annual physical inventory of equipment, the Department of Personnel could not locate several items on its property listing. Although the department's physical inventory detected that the items were missing, its internal controls did not promptly detect the movement or disposition of these items (page 4).

Poor Controls Over Performance Evaluations

The department has not complied with its own personnel policies requiring periodic employee performance evaluations (page 7).

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

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Audit Report
Department of Personnel
For the Years Ended June 30, 2000, and June 30, 1999

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Department of Personnel

For the Years Ended June 30, 2000, and June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The Department of Personnel, one of the staff agencies of the executive branch, is under the Commissioner of Personnel. The department serves in an advisory capacity to the Governor, assisting him in formulating and executing all personnel policies and procedures for employees in state service and applicants for positions. It administers the provisions of the Civil Service Act, prescribes rules and regulations governing state employees, and strives to establish a modern and effective system of personnel management. It also coordinates the Governor’s Affirmative Action Plan, which ensures that women and all minority persons are given an opportunity for equal employment in all state agencies in the executive branch. The department comprises the Divisions of Technical Services, Human Resources, and Executive Administration.

Technical Services Division - This division is responsible for maintaining state personnel records, administering civil service examinations, monitoring the civil service appointment process, and auditing the state payroll.

Human Resource Division - This division is responsible for coordinating and conducting training courses for state employees, implementing the state’s affirmative action program, and supporting employee relations. It administers the state employee Sick Leave Bank, coordinates the state’s Employee Suggestion Program, provides administrative support for the Civil Service Commission, and ensures compliance with provisions of the Americans with Disabilities Act.

Executive Administration Division - This division is responsible for the fiscal management of the department and for developing and maintaining technically sound personnel management programs to assist state managers and supervisors. This division is represented by the commissioner, who also serves as secretary to the Civil Service Commission.

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

AUDIT SCOPE

We have audited the Department of Personnel for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, expenditures, sick leave bank, payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

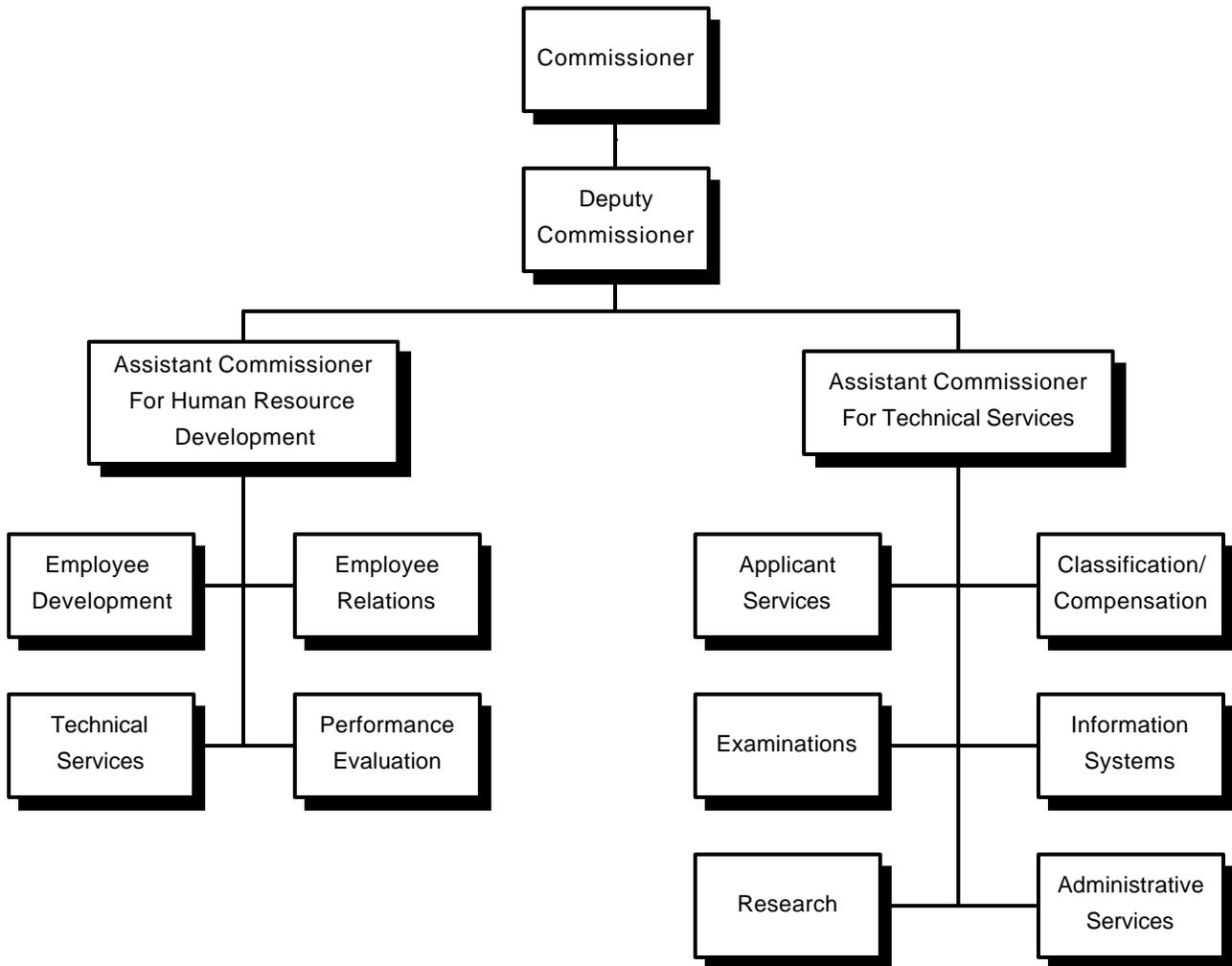
PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Personnel filed its report with the Department of Audit on November 18, 1999. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Personnel has corrected a previous audit finding concerning the failure to obtain fully executed contracts before the contract period began.

Department of Personnel



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

The objectives of the review of the equipment procedures and controls were to determine whether

- equipment included on the Property of the State of Tennessee (POST) Exception Report was located or deleted from POST;
- equipment was correctly listed on POST;
- equipment was adequately safeguarded; and
- sold, abandoned, damaged, or obsolete equipment was removed from POST.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the inventory of equipment owned by the department. A copy of the Exception Report for the most recent inventory prepared by the Department of General Services was obtained. The items which the agency had indicated as located were confirmed by physically locating the items and verifying the description, tag number, location, and condition. For those items not located, we verified that each piece of equipment was properly deleted from POST. Supporting documentation was reviewed, and samples of equipment maintained throughout the department were tested.

Based on our interviews, review of supporting documentation, and testwork, we determined that the equipment included on the POST Exception Report was located or properly deleted, that equipment was correctly listed on POST, and that equipment was adequately safeguarded. We also determined that the department made inaccurate statements regarding missing equipment, as discussed in finding 1. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

1. **The department did not promptly detect and accurately report disposition of equipment**

Finding

During the annual physical inventory of equipment, the Department of Personnel could not locate several items on its property listing. As a result, the department sent a memorandum to the Division of State Audit, providing descriptions, tag numbers, and purchase dates of the missing items. According to the memorandum,

After extensive research and consideration, it was determined that several items could not be located. We believe some of these items were transferred to Human Services and others may have been sent to surplus property.

The average age of the missing equipment was 7 years, with a range from approximately 5 to 13 years. During the audit, the department could not provide documentation that any of these items were transferred to General Services as surplus property, and none of these items were located at Human Services. Section 8-19-501 of *Tennessee Code Annotated* requires that agencies immediately report unauthorized removal of state property to the Comptroller of the Treasury. Although the department's physical inventory detected that the items were missing, its internal controls did not promptly detect the movement or disposition of these items. As for the remaining items on the property list, the department was able to locate all of the items selected in the audit sample.

Recommendation

The department's internal controls over equipment should be improved in order to ensure that its physical security is adequate and that all transfers and movement of property are documented. Furthermore, the department should promptly and accurately report missing equipment in accordance with Section 8-19-501 of *Tennessee Code Annotated*.

Management's Comment

We concur. In order to document the surplus of equipment, the department now requires the retention of the signed copy of the State of Tennessee Surplus Property Inspection Request form received from Surplus Property at the time of property pick-up. In order to document the transfer of equipment, the department has developed a DOP Equipment Transfer form that details the equipment tag number and description, receiving department, and date of transfer. This form must be signed prior to the removal of department property. Furthermore, the Division of Administrative Services, upon notification, immediately reports the unauthorized removal of state property to building security and forwards a copy of the stolen property report to General Services, Division of Surplus Property, and the Comptroller of the Treasury in accordance with Section 8-19-510 of *Tennessee Code Annotated*.

EXPENDITURES

The objectives of the review of the expenditures, procedures, and controls were to determine whether

- expenditures were for authorized goods and services,

- expenditures for goods or services were allowable in accordance with the budget and other regulations or requirements,
- payments were made in a timely manner,
- travel expenditures were made in accordance with the Comprehensive Travel Regulations,
- contracts were made in accordance with regulations, and
- contract payments were in compliance with contract terms and properly approved and recorded against the contract.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over expenditures. Based on the department's internal controls, a sample of expenditures was selected and tested for the appropriate attributes. Supporting documentation was reviewed, and samples relating to travel and contracts were also tested.

Based on our interviews, review of supporting documentation, and testwork, we determined that the expenditures tested were for authorized goods and services, were allowable costs, and were made in a timely manner. Travel expenditures were made in accordance with the Comprehensive Travel Regulations. We also determined that contracts were made in accordance with regulations and payments were made in compliance with contract terms. Other minor weaknesses were reported to management in a separate letter.

PAYROLL AND PERSONNEL

The objectives of the review of the payroll and personnel procedures and controls were to determine whether

- payroll disbursements were made for work authorized and performed;
- payroll was correctly recorded as to amount and period;
- payroll was distributed properly by account, fund, and budget category; and
- performance evaluations were completed in the time period required.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over payroll. Based on the department's internal controls, a sample of payroll transactions was selected and tested for the appropriate attributes. Personnel files were obtained, and employment confirmations were sent to individuals in the sample. Supplemental payroll registers were reviewed for reasonableness and adequate support.

Based on our interviews, review of supporting documentation, and testwork, we determined that payroll disbursements were made for work authorized and performed; that payroll was correctly

recorded as to amount and period; and that payroll was distributed properly by account, fund, and budget category. We also determined that controls over performance evaluations need strengthening, as discussed in finding 2. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

2. Controls over performance evaluations need strengthening

Finding

The Department of Personnel has not complied with its own personnel policies requiring periodic employee performance evaluations. The Department of Personnel's rules require that each career service employee's performance be evaluated at least every 12 months. Although department personnel stated a performance evaluation tracking system is in place, it does not appear that management properly utilizes the system.

A review of 25 personnel files with evaluations due during the period July 1, 1998, through June 30, 2000, disclosed that 12 employees (48%) had not been evaluated in a timely manner. Four of these employees had not had performance evaluations in over five years, and two had not had an evaluation in over eight years.

The *Rules of Tennessee Department of Personnel*, Chapter 1120-5-01, "Job Performance Planning and Evaluation," states that the purpose of job performance evaluations is "to promote employee development, enhance employee productivity, serve as a basis for sound personnel decisions, and provide a permanent record of the performance of major duties and responsibilities for employees in the State service." To maintain and improve job performance and to properly consider individuals for merit increases and promotions, the department needs to evaluate employees regularly.

Recommendation

Supervisors should use the performance evaluation tracking system in order to determine when periodic performance evaluations are necessary. The commissioner should ensure that the evaluation process is monitored to determine department supervisors' compliance with the Department of Personnel's policies for employees' performance evaluations.

Management's Comment

We concur. The department utilizes the performance evaluation tracking systems to notify supervisors when evaluations are necessary. However, the department has not been diligent in ensuring the requisite evaluations are performed in a timely manner. As a result, the Commissioner has directed

executive staff to review the current performance evaluation tracking system printout for delinquent performance evaluations and to bring current all delinquent evaluations within ninety days. Furthermore, the Commissioner has directed the Assistant Commissioners to review the tracking system reports for their respective areas of responsibility monthly to ensure all performance evaluations are performed in a timely manner.

The department strongly supports the performance evaluation system as a tool for providing feedback to the employee on their performance and professional development.

SICK LEAVE BANK

The objectives of the review of the sick leave bank program procedures and controls were to determine whether

- sick leave bank transactions were made for allowable activities,
- sick leave bank transactions were made to eligible employees, and
- sick leave bank transactions were properly authorized and approved.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the use of leave from the Sick Leave Bank and policies over departmental transfers for sick leave bank members. Based on the department's internal controls, a sample of sick leave bank transactions was selected and tested for the appropriate attributes. Supporting documentation was reviewed.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that sick leave bank transactions were made for allowable reasons, were made to eligible employees, and were properly authorized and approved. Although we had no findings related to the sick leave bank, minor weaknesses were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2000, and June 30, 1999, responsibility letters and December 31, 1999, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures. We reviewed the June 30, 2000, and June 30, 1999, responsibility letters and the December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to submission deadlines. To determine if corrective action plans had been implemented, we interviewed management and reviewed supporting documentation as considered necessary.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*.

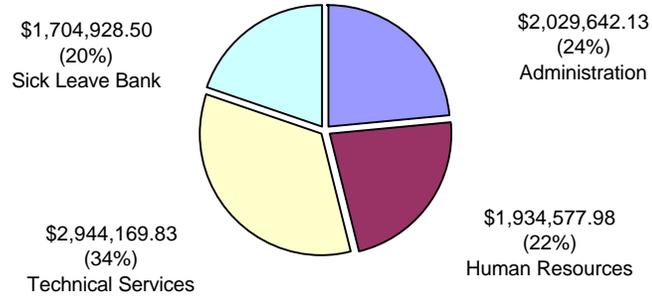
APPENDIX

Department of Personnel divisions and allotment codes:

- 319.01 Division of Executive Administration
- 319.02 Division of Human Resources
- 319.03 Division of Technical Services
- 319.04 Sick Leave Bank

Expenditures by Allotment

Fiscal Year Ended June 30, 2000 (Unaudited)



Expenditures by Allotment

Fiscal Year Ended June 30, 1999 (Unaudited)

