

Tennessee Human Rights Commission

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

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

March 7, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Julius Sloss, Executive Director
Tennessee Human Rights Commission
530 Church Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Human Rights Commission 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/mb
01/095



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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July 16, 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 Tennessee Human Rights Commission for the years ended June 30, 2000, and June 30, 1999.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. 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 Tennessee Human Rights Commission's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Human Rights Commission 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 commission'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 commission's internal controls and/or instances of noncompliance to the Tennessee Human Rights Commission's management in a separate letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Human Rights Commission
For the Years Ended June 30, 2000, and June 30, 1999

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission 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 revenue, expenditures, payroll and personnel, equipment, and compliance with the Financial Integrity Act; utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds; and conflict of interest. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDINGS

The Commission's Revenue Procedures and Controls Were Inadequate*

One employee performed most of the cash receipting functions for most the audit period. Also, commission revenue records were not being reconciled to the State of Tennessee Accounting and Reporting System (page 4).

Vendors Were Not Paid in a Timely Manner

The commission did not pay vendor invoices in accordance with the Prompt Payment Act of 1985 as cited in Section 12-4-703, *Tennessee Code Annotated* (page 7).

The Commission Does Not Adhere to Its Job Performance Policy

The commission did not comply with its job performance evaluation policy requiring quarterly and annual performance evaluations by the Executive Director (page 9).

Controls Over Equipment Need to Be Strengthened*

The commission could not locate some of its equipment, equipment reported as stolen had not been removed from the Property of the State of Tennessee (POST) system, and the serial number on equipment did not agree with POST (page 11).

The Commission Failed to Comply With the Financial Integrity Act**

The commission did not prepare and submit its financial integrity report in accordance with state law (page 13).

The Commission Did Not Record Its Federal Funding in Accordance With State Policy, Nor Did It Request an Exception to This Policy*

The commission did not utilize the State of

Tennessee Accounting and Reporting System (STARS) grant accounting system to track federal funds, as required by Policy 20, nor did it request an exception to this policy from the Department of Finance and Administration (page 14).

Conflict of Interest Policies and Compliance Need Improvement*

There is no formal, written conflict of interest policy for commissioners (page 16).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"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
Tennessee Human Rights Commission
For the Years Ended June 30, 2000, and June 30, 1999

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Tennessee Human Rights Commission 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 Tennessee Human Rights Commission. 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

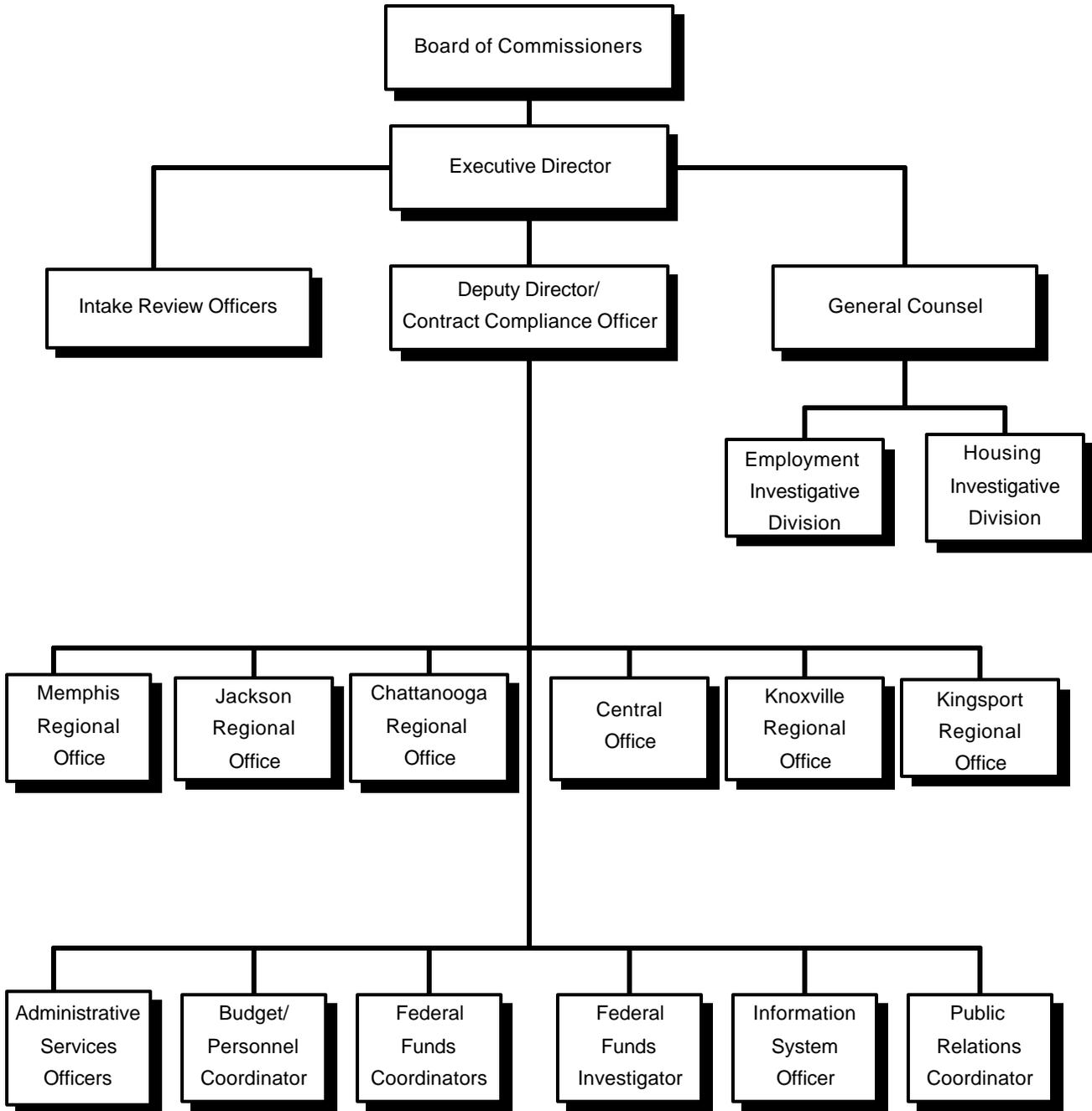
The mission of the Tennessee Human Rights Commission is to promote civil rights in Tennessee. The commission is charged to encourage, promote, and develop fair and equal treatment of and opportunity for all Tennesseans regardless of race, color, creed, sex, or national origin; to assist local governmental agencies with human relations; to report yearly to the Governor and the legislature the commission’s activities; and to adopt rules and regulations to govern the proceedings of the commission.

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

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission 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 revenue, expenditures, payroll and personnel, equipment, and compliance with the Financial Integrity Act; utilization of the Department of Finance and Administration’s grant module to record the receipt and expenditure of federal funds; and conflict of interest. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

Tennessee Human Rights Commission



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 Tennessee Human Rights Commission filed its report with the Department of Audit on March 31, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Tennessee Human Rights Commission has corrected the previous audit finding concerning alleged employee fraud.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate revenue procedures and controls; inadequate controls over equipment; failure to comply with the Financial Integrity Act; failure to record federal funding in accordance with state policy; and an inadequate conflict of interest policy. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

The objectives of our review of revenue controls and procedures were to determine whether

- controls over revenue were adequate;
- transactions were properly supported, coded, and recorded;
- commission records were reconciled with the State of Tennessee Accounting and Reporting System (STARS);
- Type J journal vouchers were processed in accordance with the Department of Finance and Administration's Policy 18; and
- journal vouchers were properly initiated, authorized, and approved.

We interviewed key commission personnel to gain an understanding of the commission's procedures and controls over revenue. We also reviewed supporting documentation for these

procedures and controls. We selected a nonstatistical sample of revenue transactions to determine whether they were properly supported, coded, and recorded. Journal vouchers in the sample were tested to determine whether they were properly initiated, authorized, and approved. We also determined if commission records were being reconciled with STARS. All Type “J” journal vouchers complied with F&A’s Policy 18.

Based on our interviews, review of supporting documentation, and testwork, we determined controls and procedures were inadequate with regard to the cash receipting function and commission records were not reconciled to STARS. See finding 1. Our testwork revealed that transactions were properly supported, coded, and recorded and journal vouchers were properly initiated, authorized, and approved. Type J journal vouchers were processed in accordance with the Department of Finance and Administration’s Policy 18.

1. The commission’s revenue procedures and controls were inadequate

Finding

As noted in the prior audit, revenue procedures and controls need to be improved. The executive director concurred with the prior audit finding and stated that an additional staff person had been added in order to implement the auditor’s recommendations. In a March 27, 2000, letter addressing actions taken by the commission on prior audit findings, the executive director stated that cash receipt functions had been segregated, mail was being logged in, and revenue records were being reconciled. However, with the exception of the last two months of the audit period, May 2000 through June 2000, the following inadequacies still existed.

- a. Cash receipt functions were not properly segregated. The Budget/Personnel Coordinator was performing the following incompatible duties: opening the mail, preparing the deposit, making the deposit, and posting to the accounting records. No mail log or cash receipt was prepared, checks were not endorsed immediately upon receipt, and there was no documented reconciliation of the deposit with the accounting records.
- b. Reconciliations between commission revenue records and the State of Tennessee Accounting and Reporting System (STARS) were not performed.

There were no compensating controls noted for either of these conditions. Proper segregation of duties helps to ensure that funds and assets are not lost, stolen, misappropriated, or recorded improperly. The duties of authorizing transactions, recording transactions, and maintaining assets should be separated whenever possible. Prompt reconciliation of the commission’s internal accounting records with transactions in STARS and maintaining documentation of the reconciliation helps to ensure that the information in the centralized accounting system is accurate. Inadequate segregation of duties and the failure to reconcile revenue records with STARS significantly increase the potential for errors and fraud to occur and go undetected.

Recommendation

The Executive Director should continue to ensure that revenue procedures and controls are implemented. Duties within the cash receipts functions should be adequately segregated. When the mail is opened, a mail log or cash receipt log should be prepared by an employee who is independent of the other cash receipt functions. Checks should be restrictively endorsed immediately. Cash receipts and deposits should be reconciled. Whenever possible, the duties of preparing the deposit, making the deposit, reconciling cash receipts to the deposit, and posting to the accounting records should be separated. When duties cannot be segregated because of limited staff, other compensating controls, such as a documented managerial review, should be in place. Also, revenue records should be promptly reconciled with STARS and adequately documented.

Management's Comment

We concur. The revenue that is spoken of in this finding primarily deals with funds received for copies of files requested by complainants and respondents. The audit states that one person was opening the mail, preparing the deposit, making the deposit, and posting to the accounting records. It is probable that one person performed most of these functions with the exception of opening the mail. The Executive Director or his designee opens all mail that comes into the agency for several reasons. It is important to monitor the flow of information such as position statements, letters from complainants, respondents, and attorneys for both, invoices for bills, complaints filed, government correspondence, etc. Since the agency receives and accepts an average of 600 new complaints each year, an average of 50 per month, it is expected that position statements from respondents should flow into the agency almost daily. If there is a tremendous gap in these responses then it could signify a problem internally or externally. It is also important for the Executive Director to see correspondence from complainants and respondents to ascertain how responsive the agency is to complaints. Also, invoices are looked at to ensure that bills are timely paid and the frequency of requests for copies of cases and checks received for these copies. The revenue for these copies generally amounts to only a few hundred dollars a year. Nevertheless, in response to the audit finding the following procedure has been implemented. The Executive Director or designee continues to open all mail and in the event a check is received it is immediately stamped for deposit only. The check is then given to another employee who maintains a log that tells the date the check was received, pertinent information about the check, and a copy of the check. The check is then given to the budget coordinator who makes the appropriate entry on the STARS system and then makes the deposit. The Commission's revenue records and the STARS system will be reconciled every month or as needed. This procedure should address the issue of segregation of duties.

EXPENDITURES

The objectives of our review of expenditure controls and procedures were to determine whether

- controls over expenditures were adequate;

- access to the State of Tennessee Accounting and Reporting System (STARS) was properly restricted;
- voucher registers were signed by those authorized to sign according to the signature authorization obtained from the Department of Finance and Administration;
- expenditures were for goods and services that were properly authorized and recorded, adequately supported, and made in accordance with applicable requirements;
- payments were made in a timely manner;
- Type J journal vouchers were processed in accordance with the Department of Finance and Administration's Policy 18;
- agency records were reconciled with STARS; and
- the commission complied with its cooperative agreement with the United States Department of Housing and Urban Development for FY2000 with regard to spending at least 20 percent of its total annual budget on fair housing activities, development of and carrying out an outreach plan, and sending at least one employee to the national and regional training activities.

We interviewed key commission personnel and examined supporting documentation to gain an understanding of controls over expenditures. We obtained a listing of persons with access to STARS. We then determined if employees were still employed at the time of the listing and whether the employees' duties required the level of system access they were given. We scanned voucher registers and compared the approved signatures to the authorized signatures listing that was obtained from the Department of Finance and Administration (F&A) to determine whether the registers were properly approved. We also determined if commission records were being reconciled with STARS. We selected a nonstatistical sample of expenditures transactions to determine if the expenditures were adequately supported, properly authorized and recorded, and made in accordance with applicable requirements. Also, we determined whether payments were made in a timely manner. We tested all Type J journal vouchers to determine whether they were processed in accordance with F&A Policy 18. We also interviewed key personnel and reviewed supporting documentation to determine whether the commission had complied with its cooperative agreement with the United States Department of Housing and Urban Development for FY2000 with regard to spending at least 20 percent of its total annual budget on fair housing activities, development of and carrying out an outreach plan, and sending at least one employee to the national and regional training activities.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that controls over expenditures were adequate, access to STARS was properly restricted, voucher registers were properly approved, and commission records were being reconciled to STARS. Expenditures were properly authorized and recorded, and made in accordance with applicable requirements; however, vendors were not always paid in a timely manner as noted in finding 2. The commission also did not always maintain supporting documentation at the commission for all expenditure transactions as reported to management in a separate letter. Also, Type J journal vouchers were not

always processed in accordance with F&A's Policy 18. The commission appears to have complied with its cooperative agreement with the United States Department of Housing and Urban Development for FY2000 with regard to spending at least 20 percent of its total annual budget on fair housing activities, development of and carrying out an outreach plan, and sending at least one employee to the national and regional training activities.

2. Vendors were not paid in a timely manner

Finding

The Tennessee Human Rights Commission did not pay vendor invoices in a timely manner. For 7 of the 44 disbursements tested (16%), payment was made to the vendor 59 to 158 days after the invoice was received.

The Prompt Pay Act of 1985 as cited in Section 12-4-703, *Tennessee Code Annotated*, states, "An agency which acquires property or services pursuant to a contract with a business shall pay for each complete delivered item of property or service in accordance with the provisions of the contract between the business and agency or, if no date or other provision for payment is specified by contract, within forty-five (45) days after receipt of the invoice covering the delivered items or services."

By not paying invoices in a timely manner, the commission could lose purchase discounts, and relations with vendors could deteriorate. Also, the commission could be required to pay interest to these vendors.

Recommendation

The Executive Director should ensure that the commission complies with the Prompt Pay Act. Payments to vendors should be made in a timely manner.

Management's Comment

We concur. It should be noted that one month after the new Executive Director was hired in November 1997 the budget coordinator accepted a position with another state agency. Since no other employee in the agency possessed the expertise to pay bills via the State of Tennessee's automated systems, there was a delay in payment on some bills in the first and second quarter of 1998. A sample of 44 items were utilized in this test and of this sample seven were found to be paid more than 45 days after receipt of the invoice. Six of the seven items were received between April and July 1998 when the new budget coordinator was being hired and trained to utilize this automated system. As mentioned earlier, one of the reasons the Executive Director or his designee opens all mail is to monitor all invoices for promptness of payment. If an invoice is late, an explanation is requested by the Executive Director.

In response to the issue of there being a breakdown in the processing of payments when an employee changes jobs, an additional employee was trained to perform this function. The agency lost both of these employees to other state agencies in the first quarter of 2001. A new employee has been hired in the budget coordinator position and the personnel coordinator is being cross-trained to perform this function.

PAYROLL AND PERSONNEL

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

- controls over payroll and personnel were adequate;
- gross pay agreed with personnel records, deductions were properly supported, salaries were charged to the proper cost center, timesheets were signed by the employee and approved by the supervisor, and leave was accrued and taken in accordance with applicable guidelines;
- performance evaluations were completed as required;
- the supplemental pay register was reasonable; and
- new hires or employees who changed positions during the audit period met the qualifications for the jobs held, and if civil service, were hired or promoted from the appropriate lists, and initial wage and amount paid were properly computed.

We interviewed key commission employees to gain an understanding of procedures and controls over payroll and personnel. We reviewed supporting documentation for these controls and procedures. A nonstatistical sample of payroll transactions was tested to determine if payroll disbursements were authorized, adequately supported, and charged to the correct cost center. Testwork was also performed on the sample of payroll transactions to determine whether timesheets were properly signed and approved, leave was properly accrued and taken, and performance evaluations were properly completed, and to determine if new hires or employees who changed positions during the audit period met the qualifications for the jobs held, and if civil service, were hired or promoted from the appropriate lists, and initial wage and amount paid were properly computed. Also, we examined the supplemental pay register's reasonableness.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that controls over payroll and personnel were adequate with a minor exceptions that was reported to management in a separate letter. Also, gross pay agreed with personnel records, deductions were properly supported, salaries were charged to the proper cost center with a few minor exceptions as reported to management in a separate letter, timesheets were signed by the employee and approved by the supervisor, and leave was accrued and taken in accordance with applicable guidelines. New hires or employees who changed positions during the audit period met the qualifications for the jobs held, and if civil service, were hired or promoted from the appropriate lists, and initial wage and amount paid were

properly computed. Also, the supplemental pay register appeared reasonable. We determined that performance evaluations were not performed in accordance with policy as noted in finding 3.

3. The commission does not adhere to its job performance evaluation policy

Finding

The Tennessee Human Rights Commission did not comply with its job performance evaluation policy requiring quarterly and annual performance evaluations by the executive director. According to the commission's policy, the executive director shall evaluate every employee on a quarterly basis. Also, employees should receive an annual evaluation in accordance with Department of Personnel policy.

Testwork performed on 17 personnel files disclosed that none of the 17 employees had received quarterly evaluations from the executive director. Of the 17 employee files tested, 16 employees were required to have an annual evaluation. None of the 16 employees had an annual performance evaluation for fiscal year 1999. In response to a finding included in a Performance Audit report issued in June 1999, the commission attempted to evaluate all of its employees in fiscal year 2000; one employee in the sample was not evaluated during this period. Fourteen employees were required to have annual performance evaluations for fiscal year 2001; however, 7 of 14 employees (50%) did not have an annual evaluation for fiscal year 2001.

Department of Personnel Policy 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

The Executive Director should ensure that all applicable employees are evaluated on an annual basis. These evaluations should be promptly forwarded to the Department of Personnel. The Executive Director, as required by commission policy, should perform all quarterly evaluations.

Management's Comment

We concur. Initially in 1999 the Executive Director made a decision to evaluate employees on a quarterly basis and this was placed in the agency's policy manual. This process proved to be too frequent and cumbersome and as result the Executive Director simply utilized the State of Tennessee Department of Personnel policy of annual evaluations. The quarterly evaluation system was eliminated in 1999. Unfortunately, this policy of quarterly evaluations was inadvertently left in the agency's policy

manual and the Department of Audit held the agency accountable to it. In short, the agency is utilizing the Department of Personnel's annual evaluation system, which occurs on the employee's anniversary date and all are now current.

EQUIPMENT

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

- controls over equipment appeared adequate;
- access to Property of the State of Tennessee (POST) system was properly restricted;
- equipment on the POST inventory listing could be physically located or confirmed and the description, tag number, serial number, and location in POST were correct;
- office items traced to the POST inventory listing with agreement of pertinent data;
- physical security over equipment items was adequate; and
- procedures for lost or stolen equipment were followed, including informing the Comptroller's Office and deleting the equipment from the POST system in a timely manner.

We interviewed key commission employees to gain an understanding of procedures and controls over equipment. We obtained a listing of employees with access to the POST system to determine if the person was an employee as of the date of the listing and if the employee's job duties required the level of access given. A nonstatistical sample of equipment items on the POST inventory listing was tested to determine if the equipment could be physically located or confirmed and whether the description, tag number, serial number, and location in POST were correct. Equipment located in the central office and field offices was traced back to POST for agreement of pertinent data. Documentation supporting lost or stolen property was reviewed to see if proper procedures were followed, including informing the Comptroller's Office and deleting the equipment from the POST system.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that controls over equipment were not adequate. Sample equipment items could not physically located or confirmed. In addition, the tag number, serial number, and location of some equipment in POST was incorrect. Equipment located in the central office and field offices did not always agree with pertinent data in POST. Also, equipment reported as stolen had been reported to the Comptroller's Office; however, it had not been removed from the POST system. See finding 4 below. Physical security over equipment appeared adequate.

4. Controls over equipment need to be strengthened

Finding

As noted in the prior audit finding, the Tennessee Human Rights Commission needs to strengthen controls over equipment. The Executive Director concurred with the prior audit finding; however, problems remain.

Testwork performed on a sample of equipment revealed the following discrepancies:

- six of 25 sample items tested (24%) could not be located;
- two of 25 sample items (8%) were reported stolen during the period January 27-29, 2001, but these items have not been removed from the Property of the State of Tennessee (POST) system;
- the location of 4 of 17 sample items (24%) did not agree with the location shown on POST; and
- the serial number on 9 of 17 sample items (53%) did not agree with the serial numbers listed on POST.

Auditors noted the following discrepancies while observing equipment at the Nashville, Memphis, Jackson, and Chattanooga offices:

- four of 25 items observed (25%) were not listed on POST and did not have state tags affixed to the items;
- nine of 21 items observed (43%) had serial numbers that did not agree with the serial numbers listed on POST;
- eight of 21 items observed (38%) were physically located in a place other than the location shown on POST; and
- two of 21 items observed and recorded on POST (10%) did not have a state tag attached to the equipment item.

Although the Department of General Services and the Tennessee Human Rights Commission have policies and procedures for personnel to follow in maintaining proper control and accountability over equipment, the commission has not followed these procedures. The commission's inventory records are inaccurate because location changes and other events are not properly documented. Failure to follow prescribed procedures also increases the risk of items being stolen without detection. In addition, inventory valuations may not be proper because of the inaccuracies in equipment recordkeeping.

Recommendation

The Executive Director should take steps to ensure that the Budget/Personnel Coordinator takes appropriate action so that all equipment items are accurately recorded on the Property of the State of Tennessee (POST) system and that transfer documentation is completed and POST is updated each time equipment location changes. POST should also be updated in a timely manner when equipment is lost or stolen. All equipment should be tagged and properly identified in the property records.

Management's Comment

We concur. The agency is taking affirmative steps to ensure that all equipment is properly tagged and listed on the POST (Property of the State of Tennessee) system. Equipment is sometimes moved from one office to another office or in the Nashville office from the third floor to the fourth floor and vice-versa when there is an equipment breakdown. We will work to ensure that these movements are properly recorded on the POST system.

Auditor's Comment

Subsequent to the completion of fieldwork and at the request of the Executive Director, an auditor returned to the central office and observed three of the six equipment items that could not be located during fieldwork. Surplus documentation was observed for the remaining three equipment items.

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 follow up on the prior audit finding to determine whether the commission had complied with the Financial Integrity Act.

We reviewed the commission's responsibility letters and internal accounting and administrative control report for compliance with Section 9-18-104, *Tennessee Code Annotated*.

Based on our discussion with key employees responsible for the evaluation of the commission's internal accounting and administrative control and based on our review of documentation submitted to the Comptroller of the Treasury, the commission still has not complied with the Financial Integrity Act.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report and responsibility letters were not submitted in accordance with Section 9-18-104, *Tennessee Code Annotated*, as noted in finding 5.

5. The commission did not comply with the Financial Integrity Act

Finding

As noted in the two prior audit reports, the Tennessee Human Rights Commission has failed to comply with the Financial Integrity Act of 1983. 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 (F&A) 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. In December 1998, F&A detailed these requirements in *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*.

On July 12, 1999, the Comptroller of the Treasury received what the commission referred to as its Financial Integrity Report. This report stated that the results of the commission's evaluation provided reasonable assurances about the system of internal accounting and administrative controls in effect during 1998. Also, one page of the supporting letter written by the Executive Director was dated July 8, 1999, while the second page was dated June 30, 1999. According to management, this report and supporting letter were meant to serve not only as the report on the commission's evaluation of its internal accounting and administrative controls that is due every fourth year beginning on December 31, 1999, but also, the commission's responsibility letter which was due on June 30, 1999, and each year thereafter. Supporting documentation for this report did not provide assurance that the evaluation was conducted in accordance with *Guidelines for the Evaluation of Internal Accounting and Administrative Controls* as issued by F&A.

On July 3, 2001, the Comptroller of the Treasury received the commission's annual responsibility letter for fiscal year ending June 30, 2000. This letter was due by June 30, 2000, a year earlier. The Comptroller's Office had no record of the commission's letter for fiscal year ending June 30, 2001, nor could the Executive Director find one. This letter was due by June 30, 2001.

Although the Executive Director concurred with the prior audit finding, failure to comply with state law and adequately document compliance with applicable guidelines has not provided documented assurance that the commission's operations are being conducted effectively and that adequate internal controls are in place. Also, the Tennessee Human Rights Commission has not provided the Commissioner of Finance and Administration with the basis for representations it may make about the commission in the state's *Comprehensive Annual Financial Report*.

Recommendation

The Executive Director should comply with all requirements of the Financial Integrity Act. An evaluation of the department's internal accounting and administrative controls should be performed in accordance with the *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*, and the department should maintain documentation of its evaluation. The department should submit the required letters and reports to the Comptroller of the Treasury and the Department of Finance and Administration by the submission deadlines.

Management's Comment

We concur. As noted in the finding, the agency submitted its comprehensive report in July 1999 to the Comptroller's Office and the Department of Finance and Administration. It is important to note that the agency has received no notification that its report did not provide assurance that the evaluation conducted was not in accordance with *Guidelines for the Evaluation of Internal Accounting and Administrative Controls* until this audit conducted two years later. It would be more helpful to the agency if feedback could be given on this report when it is submitted as opposed to when an audit is conducted. Management will re-work the report and obtain concurrence from the Department of Finance and Administration and the Comptroller's Office before officially submitting it.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine follow-up on the prior audit finding to determine whether the commission was following Policy 20 or had obtained an exception to this policy from the Department of Finance and Administration.

We interviewed key personnel regarding Policy 20. Management stated that they are exempt from Policy 20; however, there was no documentation to support a request for an exception from the Department of Finance and Administration. See finding 6 below.

6. The commission did not record its federal funding in accordance with state policy, nor did it request an exception to this policy

Finding

As noted in the prior year, the Tennessee Human Rights Commission did not comply with the Department of Finance and Administration's Policy Statement 20, "Recording of Federal Grant

Expenditures and Revenues.” The Department of Finance and Administration issued Policy 20 in response to the Cash Management Improvement Act of 1990. The policy is designed to establish uniform procedures to “track the exchange of funds between the State and Federal government.”

The prior audit recommended that the Executive Director comply with the Department of Finance and Administration’s Policy Statement 20. However, if the commission claimed an exception from Policy 20, the exception should be submitted to the Chief of the Division of Accounts, Department of Finance and Administration, for approval. The Executive Director concurred with the prior-year audit finding and stated the commission would adhere to Policy 20. The Executive Director also stated that he thought that an exception had been requested; however, no supporting documentation could be located.

The Tennessee Human Rights Commission received a combined total of \$569,463.62 in federal funding from the U.S. Department of Housing and Urban Development (HUD) and the U.S. Equal Employment Opportunity Commission (EEOC) during the fiscal year ending June 30, 1999, and \$704,661.39 during the fiscal year ending June 20, 2000. Policy 20 states that all commissions which receive all or a portion of their funding from the federal government are required to comply with this policy. The policy further states, “All requests for exceptions to this policy shall be submitted in writing by the primary departmental fiscal officer to the Chief of the Division of Accounts, Department of Finance and Administration, for approval.”

Recommendation

The Executive Director of the Tennessee Human Rights Commission should comply with the Department of Finance and Administration’s Policy Statement 20. To claim an exception from Policy 20, the Budget/Personnel Coordinator should submit the exception to the chief of the Division of Accounts, Department of Finance and Administration, for approval. If approval is not granted, the Executive Director should implement the procedures to fully utilize STARS to record receipt and expenditure of all federal funds.

Management’s Comment

We concur in part. The purpose of Policy 20 is to track the exchange of grant funds from the federal government to various state agencies. The Tennessee Human Rights Commission does not receive any grants. However, we do have contracts that are performance based with two federal agencies, the Equal Employment Opportunity Commission and the Department of Housing and Urban Development. The funds are not required to be posted on this tracking system and we have provided a copy of our exception letter from Finance and Administration to State Audit.

Auditor's Comment

On December 4, 2001, the Tennessee Human Rights Commission requested an exception from Policy 20. On January 3, 2001, the commission received a letter from the Chief of Accounts at the Department of Finance and Administration exempting the commission from Policy 20.

CONFLICT OF INTEREST

The objectives of our review of conflict of interest policies and procedures were to determine whether

- the commission has established comprehensive, written conflict of interest policies and procedures for the commissioners and employees, and
- signed conflict of interest statements were on file.

We interviewed key personnel to gain an understanding of policies and procedures regarding conflict of interest. A sample of personnel files was tested for signed conflict of interest statements.

Based on our testwork, we determined that the commission does have a conflict of interest policy for its employees and there were signed conflict of interest forms in personnel files. However, there is still no conflict of interest policy for commissioners as discussed in finding 7.

7. Conflict of interest policies and compliance need improvement

Finding

As noted in the prior audit, there is no formal, written conflict of interest policy for the commissioners who govern the Tennessee Human Rights Commission. Management concurred with the prior audit finding; however, no formal, written policy exists. In a March 27, 2000, letter addressing actions taken by the commission on prior audit findings, the executive director stated that a policy for the commissioners had been drafted and submitted for their approval. However, at the September 24, 1999, commission meeting, commissioners unanimously adopted a motion stating that “the commissioners will obey the law, and if there appears to be a conflict of interest, the staff will bring it to the attention of the Chair, and the Chair will notify the Commission.” No further action has been taken and no written disclosure of conflicts of interest is required by the commissioners.

Conflict of interest disclosures are designed to ensure that the public's interest is protected and those who make key decisions about business operations are independent from the other parties involved. Written disclosure of financial interests, prior employment, employment of immediate family

members, and other matters that may influence decisions helps to ensure that the commission is acting on the state's behalf and that commissioners recuse themselves from decision making as needed.

Recommendation

The commission should develop a formal, written conflict of interest policy for commissioners. Policies should require commissioners to sign and update, as necessary, an annual disclosure form addressing direct or indirect interest in any business, government, or organization the commission contracts with or deals with during the course of its activities. The policies should address ownership interest in a corporation or firm that deals with the commission, prior or current employment of the individual or an immediate family member, and other matters that may influence or have the appearance of influencing decisions. The Executive Director should ensure that comprehensive conflict of interest statements are received from commissioners in a timely manner, and commission members should recuse themselves from commission business as warranted.

Management's Comment

We do not concur. The Board of Commissioners have previously addressed the issue of potential conflicts among Commissioners and previously adopted a resolution that they would follow the law.

Rebuttal

As stated in the finding, on September 24, 1999, the commissioners unanimously adopted a motion which simply stated that they would obey the law. In order for the commissioners to ensure that they are in full compliance with the law, the commissioners should adopt a formal, written conflict of interest policy which requires all commissioners to provide written disclosure of all potential conflicts of interest.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The

Tennessee Human Rights Commission filed its compliance reports and implementation plans on June 30, 1999, and June 29, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODE

The Tennessee Human Rights Commission allotment code is 316.04.