

**Department of Labor and Workforce Development**

**For the Year Ended  
June 30, 2001**

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Charles K. Bridges, CPA***  
Assistant Director

***Scarlet Z. Sneed, CPA***  
Audit Manager

***Dean Smithwick***  
In-Charge Auditor

***Scott Eads***  
***Sunita Khetspal, Intern***  
***Tuan Le, CPA***  
***Harry Lee***  
***Roshena May, CFE***  
***Deborah Myers, CISA***  
***Jennifer Rhodes***  
***Judy Tribble, CFE***  
***Stephen Velie***  
Staff Auditors

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

May 7, 2002

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Michael E. Magill, Commissioner  
Department of Labor and Workforce Development  
Andrew Johnson Tower, 8<sup>th</sup> Floor  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Labor and Workforce Development for the year ended June 30, 2001.

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  
01/108



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

**SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

December 4, 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 Labor and Workforce Development for the year ended June 30, 2001.

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 Department of Labor and Workforce Development's compliance with the provisions of policies, procedures, laws, regulations, contracts, and grants significant to the audit. Management of the Department of Labor and Workforce Development 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 control and/or instances of noncompliance to the Department of Labor and Workforce Development's management in a separate letter.

Sincerely,

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  
**Department of Labor and Workforce Development**  
For the Year Ended June 30, 2001

---

## AUDIT SCOPE

We have audited the Department of Labor and Workforce Development for the period July 1, 2000, through June 30, 2001. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2001, and the *Tennessee Single Audit Report* for the same period. These areas included Unemployment Insurance, the Workforce Investment Act, and Trade Adjustment Assistance–Workers. In addition to those areas, our primary focus was on management’s controls and compliance with policies, procedures, laws, and regulations in the areas of Employment Services, information systems, revenue, payroll, the Employment Security Trust Fund, contingent and deferred revenue, and internal audit. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

## AUDIT FINDINGS

### **Annual Inventory Was Not Completed**

The department did not complete its annual physical inventory for the year ended June 30, 2001 (page 10).

### **The Department Did Not Comply With the Department of Finance and Administration’s Policy 22, Subrecipient Monitoring**

The department failed to submit the required annual monitoring plan and annual report to the Division of Resource Development and Support (page 11).

### **Single Audit Reports of the Department’s Subrecipients Were Not Always Obtained and Reviewed**

The department did not obtain and review all the subrecipients’ single audit reports as required by Office of Management and Budget Circular A-133 (page 13).

### **Computer Access Authorization Forms Are Not Maintained**

The department does not maintain computer access authorization forms beyond two years (page 16).

**Title IX Compliance Report and  
Implementation Plan Was Not Submitted**

The department did not submit an annual  
Title IX compliance report and

implementation plan to the Department of  
Audit for fiscal year ending June 30, 2001  
(page 20).

---

---

"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

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).

---

---

**Audit Report**  
**Department of Labor and Workforce Development**  
**For the Year Ended June 30, 2001**

---

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	3
<b>PRIOR AUDIT FINDINGS</b>	3
Resolved Audit Finding	3
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	3
Areas Related to Tennessee's <i>Comprehensive Annual Financial Report and Single Audit Report</i>	3
Major Federal Award Programs	5
Finding 1 – The department's annual physical inventory was not completed	10
Finding 2 – The Department of Labor and Workforce Development did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring	11
Finding 3 – The department did not always obtain and review single audit reports of its subrecipients	13
Employment Services	14
Information Systems	14
Finding 4 – The department does not maintain access code authorization forms	16
Revenue	17
Payroll	17
Employment Security Trust Fund	18
Contingent and Deferred Revenue	19

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Page</u>
Internal Audit	19
Title IX of the Education Amendments of 1972	20
Finding 5 – Title IX compliance report and implementation plan was not submitted	20
<b>OBSERVATIONS AND COMMENTS</b>	22
Title VI of the Civil Rights Act of 1964	22
<b>APPENDIX</b>	24
Divisions and Allotment Codes	24

# Department of Labor and Workforce Development For the Year Ended June 30, 2001

---

## INTRODUCTION

---

### POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Labor and Workforce Development. 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 government auditing standards generally accepted in the United States of America 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

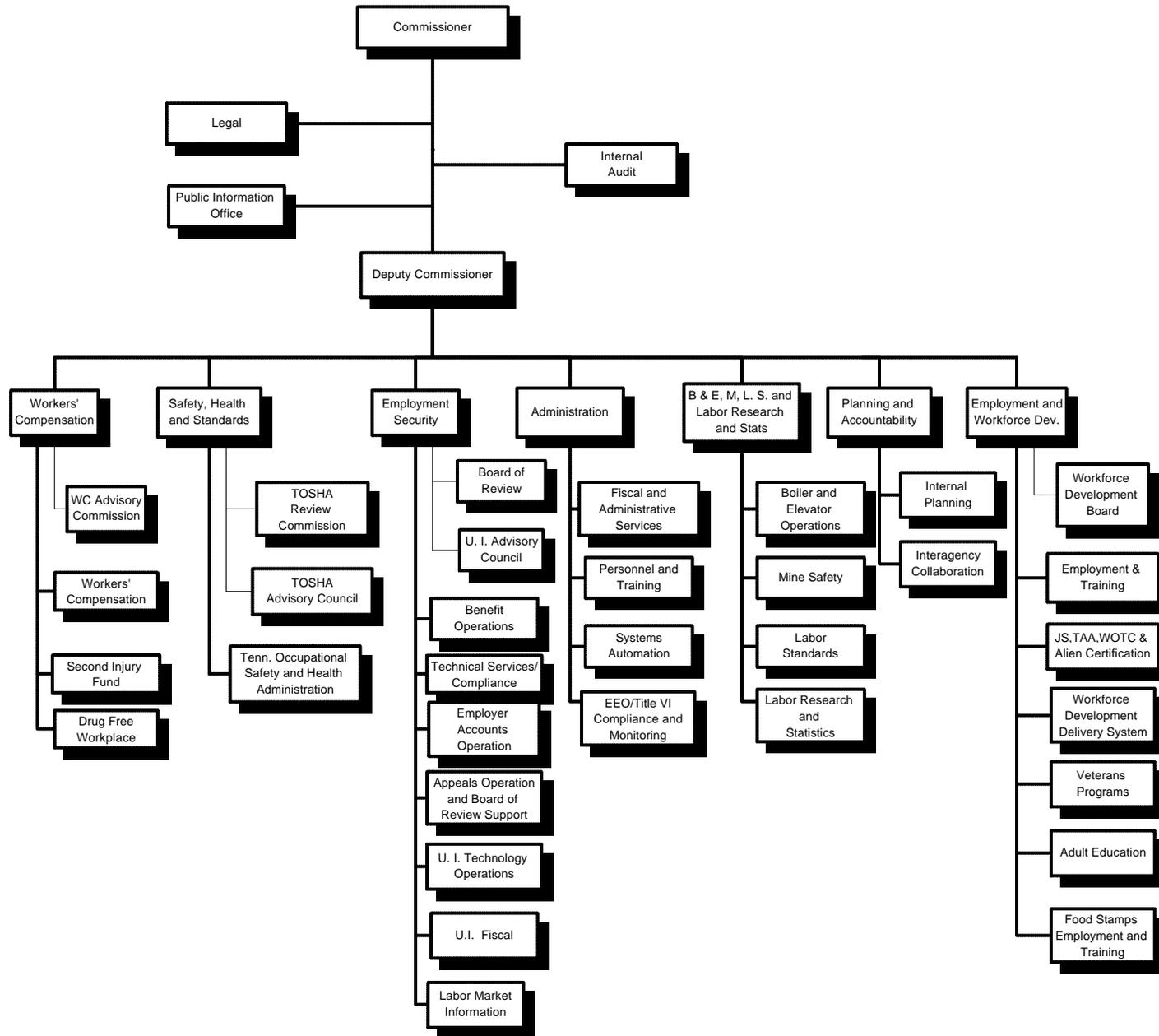
In May 1999, the 101st General Assembly unanimously adopted the Tennessee Workforce Development Act of 1999, which created a new Department of Labor and Workforce Development, integrating the existing departments of Labor and Employment Security, the Adult Education program, and the employment and training component of the Food Stamp program.

The mission of the department is to be a proactive organization with valued employees; to bring together those who offer jobs and those who need jobs with job-related assistance, education, and training in a safe, profitable workplace. The department is driven by four main goals: At the end of the day, they have 1) made the workplace safer, 2) treated people fairly, 3) found someone a job, and 4) operated more efficiently.

A deputy commissioner, seven administrators, an internal audit section, legal counsel, and a public information office assist the commissioner. The seven administrators are responsible for the direct programmatic areas of the department, including Administration, Boilers, Elevators, Mines, Labor Standards, and Labor Research and Statistics; Employment and Workforce Development; Employment Security; Planning and Accountability; Safety and Health Standards; and Workers’ Compensation.

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

# Department of Labor and Workforce Development



---

## AUDIT SCOPE

---

We have audited the Department of Labor and Workforce Development for the period July 1, 2000, through June 30, 2001. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2001, and the *Tennessee Single Audit Report* for the same period. These areas included Unemployment Insurance, the Workforce Investment Act, and Trade Adjustment Assistance–Workers. In addition to those areas, our primary focus was on management’s controls and compliance with policies, procedures, laws, and regulations in the areas of Employment Services, information systems, revenue, payroll, the Employment Security Trust Fund, contingent and deferred revenue, and internal audit. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

---

## 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 Labor and Workforce Development filed its report with the Department of Audit on August 23, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

### RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Labor and Workforce Development has corrected the previous audit finding concerning the overpayment of Trade Adjustment Assistance program participants.

---

## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

---

### AREAS RELATED TO TENNESSEE’S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Labor and Workforce Development is an integral part of our annual audit of the *Comprehensive Annual Financial Report (CAFR)*. The objective of the audit of the *CAFR* is to render an opinion on the State of Tennessee’s general-purpose financial

statements. As part of our audit of the *CAFR*, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Labor and Workforce Development is also an integral part of the *Tennessee Single Audit*, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Labor and Workforce Development were material to the *CAFR* and to the *Single Audit Report*: Unemployment Insurance, the Workforce Investment Act, and Trade Adjustment Assistance–Workers.

To address the objectives of the audit of the *CAFR* and the *Single Audit Report*, as they pertain to these four major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2001, and have issued our report dated December 4, 2001. The opinion on the financial statements is unqualified. The *Tennessee Single Audit Report* for the year ended June 30, 2001, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations. These reports include reportable conditions resulting from this audit.

The audit of the department revealed the following findings related to the *CAFR* and *Single Audit Report*:

- The department's annual physical inventory of equipment was not completed
- The Department of Labor and Workforce Development did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring
- The department does not maintain access code authorization forms
- The department did not always obtain and review single audit reports of its subrecipients

In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

---

## **MAJOR FEDERAL AWARD PROGRAMS**

### **UNEMPLOYMENT INSURANCE**

The Unemployment Insurance program provides compensation to unemployed workers for periods of involuntary unemployment. The Department of Labor and Workforce Development serves as the administrator of the state's Employment Security function, which includes collecting "unemployment taxes." The department is also responsible for determining claimant eligibility and generating benefit payments.

### **WORKFORCE INVESTMENT ACT**

The Workforce Investment Act of 1998 (WIA) reforms federal job training programs and creates a new comprehensive workforce investment system. It is designed to help state and local communities provide workers with the information, advice, job search assistance, and training they need to secure and maintain good jobs while also providing employers with skilled workers.

### **TRADE ADJUSTMENT ASSISTANCE-WORKERS**

The purpose of the Trade Adjustment Assistance program is to assist individuals who become unemployed as a result of increased imports. The department administers the benefit provisions of the act. Program activities include coordinating technical training, relocation assistance, job search, and weekly trade readjustment allowances to program participants.

Our audit of these programs consisted of the following areas, as applicable:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Earmarking
- Period of Availability of Federal Funds
- Federal Reporting
- Subrecipient Monitoring
- Special Tests and Provisions
- Schedule of Expenditures of Federal Awards

The audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to

ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

### **General Internal Control**

Our primary objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees and reviewed organization charts, departmental procedures, job responsibilities within each unit, and correspondence from the grantor and considered the overall control environment of each program. We did not note any significant deficiencies in management's general controls related to the major federal award programs.

### **Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

The objectives for the applicable major federal programs were to determine if funds were used for allowable purposes, federal expenditures were in compliance with grant requirements, and expenditures involving federal funds were recorded correctly as to the applicable federal grant and the proper grant program.

Supporting documentation for all significant items and a nonstatistical sample of the major federal programs was reviewed and tested to determine if funds were used for allowable purposes. The significant and sample items were also tested for compliance with grant requirements and appropriate recording to the proper grant program.

We determined that grant funds were spent for allowable activities in compliance with grant requirements and were properly recorded to the applicable federal grant and the proper grant program.

### **Cash Management**

Our objective for the applicable major federal programs was to determine if the department complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

We determined that management had complied, in all material respects, with the State-Treasury cash management agreement.

## **Eligibility**

The objectives for the applicable major federal programs were to determine if participants were deemed eligible, only eligible individuals received assistance, and the compensation provided to the eligible individuals was calculated in accordance with the program requirements.

A nonstatistical sample of benefit payments to claimants was selected. We tested the sample of benefit payments to claimants to determine if the individuals were eligible per compensation program requirements and the compensation provided was calculated appropriately. We reviewed each selected participant's records for the appropriate information to determine if the department made an appropriate determination as to whether the participant was eligible.

Our testwork indicated that the department performed the required eligibility determinations, only eligible claimants received benefit payments, and the payments were calculated in accordance with the program requirements.

## **Equipment and Real Property Management**

Our objective for the Workforce Investment Act (WIA) was to determine if the department properly included WIA equipment on the Property of the State of Tennessee (POST) system and the Job Training Partnership Act (JTPA) equipment has been transferred to the WIA program.

We obtained and reviewed department and subrecipient WIA Property inventory listings. We also obtained and reviewed requests for purchase, sole source provider, transfer of JTPA property to WIA, and disposal of property.

Although we determined that the department properly transferred JTPA equipment to the WIA program and properly included WIA equipment on POST, it was noted that the department had not completed the required annual inventory of equipment as discussed in finding 1.

## **Earmarking**

Our objective for the applicable federal program was to provide reasonable assurance that the earmarking requirements were identified and met.

The applicable *Code of Federal Regulations* and OMB Circular A-133 *Compliance Supplement* were reviewed to determine the earmarking requirements. We interviewed key departmental employees and examined selected reports.

We determined that the earmarking requirements were identified and met.

## **Period of Availability of Federal Funds**

Our primary objective for the applicable federal programs was to determine if the department obligated and expended federal funds within the period of availability.

We reviewed a listing of expenditures charged to grants that closed during the audit period to determine whether the federal funds were used only during the authorized period of availability. Financial reports, contracts, and expenditures were reviewed and traced to supporting documentation to determine if funds were obligated and expended within periods allowed.

Based on our review of financial reports, contracts, and expenditures, the department expended federal funds within the period of availability.

## **Federal Reporting**

Our objective for the applicable major federal programs was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked management about the requirements and procedures for preparing, reviewing, and submitting program financial and progress reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on our testwork, it appears that, in all material respects, reports of federal awards appeared to include all activity of the reporting period, were supported by underlying records, and were submitted in accordance with program requirements.

## **Subrecipient Monitoring**

Our objective for the Workforce Investment Act was to determine whether Local Workforce Investment Areas (LWIAs) were properly monitored to ensure compliance with federal award requirements and whether the department was in compliance with the Department of Finance and Administration's Policy 22 concerning subrecipient monitoring.

The department's procedures for monitoring LWIAs' eligibility and activity were reviewed and evaluated for adequacy. The department's procedures for evaluating subrecipients to be monitored, developing a monitoring plan, and submitting the monitoring plan and annual report were reviewed and evaluated to determine compliance with the Department of Finance and Administration's Policy 22. Monitoring reports were reviewed to determine if the department received and processed the monitoring reports. The department's procedures were reviewed to determine if the department obtained and evaluated subrecipients' audit reports timely. We also

tested the audit reports to determine if monitoring results were documented and whether deficiencies were corrected appropriately and timely.

Based on our review and testwork, the department did not develop and submit the monitoring plan or annual report as required by the Department of Finance and Administration's Policy 22 as noted in finding 2. Also, the department did not always obtain and review the subrecipients' single audit reports as required by Office of Management and Budget Circular A-133 as noted in finding 3.

## **Special Tests and Provisions**

Specific requirements for special tests and provisions for the Unemployment Insurance program were obtained by review of the OMB Circular A-133, *Compliance Supplement*; interviews with key employees; and review of laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Special Tests and Provisions (ST&Ps) for the Unemployment Insurance program consist of the following areas: Employer Experience Rating and the Match of the state's quarterly employer tax paid with IRS 940 Federal Unemployment Tax Act (FUTA) Tax Form. Each ST&P appears separately below.

### Employer Experience Rating

Our main objectives were to verify the accuracy of the employer's annual state Unemployment Insurance tax rate and determine if the tax rate was properly applied by the state. Key employees were interviewed about procedures related to the computation of the employer's annual tax rate. We tested the state's computer calculation of the Employer Experience Ratings by using Computer Aided Audit Techniques (CAATs). The dollar amounts of errors, and the percentages to the total of employers' premiums for fiscal year 2001 were determined.

Based on the testwork performed, we determined that the system correctly calculates the Employer Experience Rating and that the state Unemployment Insurance tax rate was accurate and properly applied by the state.

### Match With IRS 940 FUTA Tax Form

Our main objectives were to determine whether the Tennessee Department of Labor and Workforce Development followed Internal Revenue Service (IRS) procedures for certification of the matching process between the IRS 940 FUTA taxes paid and the state's file of employers' unemployment taxes (SUTA) paid to the state; and whether the department seeks to verify the status of each Non-State Filer and collect any premiums due to the state.

Key employees were interviewed about the procedures for certifying state FUTA tax credits. The auditor observed the department's process of merging the IRS FUTA Identification File and the Employer Accounts data file and the two error files generated by the program. One

report indicates discrepancies where the employer reports to the state but not the IRS and vice versa. The second report is the State Non-Filer error report. The auditor reviewed the supporting documentation and supplemental information used to correct the errors. Also, testwork was performed on a sample of employers who had not filed Tennessee Unemployment Tax for the audit period to determine if the department had made notification and attempted to collect any taxes due.

The results of our interviews, reviews, and testwork revealed that the department followed the IRS procedures for conducting the annual match to support its certification of the matching process between FUTA and SUTA tax payments. Also, based on the testwork, we determined that the department seeks to verify the status of each Non-State Filer and collect any premiums due to the state.

### **Schedule of Expenditures of Federal Awards**

Our objective was to verify that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards, and total disbursement amounts were traced to supporting documentation. We determined that the Schedule of Expenditures of Federal Awards was properly approved and adequately supported.

### **Findings, Recommendations, and Management's Comments**

#### **1. The department's annual physical inventory was not completed**

##### **Finding**

The property and equipment officer of the Department of Labor and Workforce Development did not complete the annual inventory for the year ended June 30, 2001. Fifty-one percent of the department's equipment items were not physically inventoried. The department's *Property Accountability Manual* states, "A complete physical inventory of all property will be made and reconciled at least once a year with the POST [Property of the State of Tennessee] system." The Department of General Services' *POST User Manual* states, "Each state agency must take an annual physical inventory."

The department's previous property and equipment officer resigned in March 2001, and the current property and equipment officer assumed this position in April 2001. The department had not completed its inventory for the year ended June 30, 2001, as of December 4, 2001.

Although the Department of Labor and Workforce Development and the Department of General Services have policies and procedures for personnel to follow in maintaining proper control and accountability over equipment, the department has not followed these procedures. Failure to follow prescribed procedures increases the risk of items being stolen without detection.

In addition, inventory valuations may not be proper because of the inaccuracies in equipment record keeping.

### **Recommendation**

The Commissioner should ensure that the property and equipment officer follows the prescribed policies and procedures. The property and equipment officer should ensure that a complete physical inventory is performed annually.

### **Management's Comment**

We concur in part. The department's previous property and equipment officer resigned in March 2001, and the current property and equipment officer assumed the position in April 2001. The department did not complete an inventory by June 30, 2001; however, the department has completed an inventory with some items not accounted for. Due to turnover in staff, we elected not to write off any items. Our Property Officer continues to research these items and will complete an inventory on June 30, 2002, in accordance with established policies.

2. **The Department of Labor and Workforce Development did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring**

### **Finding**

The department did not identify and report its subrecipients under the Workforce Investment Act program to the Department of Finance and Administration (F&A) in the form of an annual monitoring plan as required by Policy 22. Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. The policy requires the Department of Labor and Workforce Development to submit an annual monitoring plan to the Division of Resource Development and Support (RDS) in the Department of Finance and Administration for review, comment, and approval by September 30 of each year. This plan should identify all subrecipients to be monitored, describe the risk criteria utilized to select subrecipients for monitoring purposes, identify full-time equivalents dedicated to monitoring activities, and include a sample monitoring guide. The department has not prepared and submitted the required plan to identify its subrecipients and document other plan requirements for the audit period.

In addition, the Department of Labor and Workforce Development is required to submit an annual report summarizing its monitoring activities to the RDS by October 31 of each year. This report was not submitted.

Not submitting the required monitoring plan and annual report could result in inadequate monitoring of subrecipients.

## **Recommendation**

The Commissioner should ensure that the required annual monitoring plan is submitted by September 30 of each year and that the plan includes all the required information. Also, the Commissioner should ensure that the annual report summarizing the department's monitoring activities is submitted by October 31 of each year.

## **Management's Comment**

We do not concur. The Department of Labor and Workforce Development (TDL&WD) did not complete a written Monitoring Plan for the period of July 1, 2000, through June 30, 2001. The Department submitted all necessary information that is contained in the plan through other means.

This was the transition year from the Job Training Partnership Act (JTPA) and the Workforce Investment Act (WIA), resulting in both the close out of JTPA programs and the initial implementation of the WIA programs. The Department of Finance and Administration, Program Accountability Review (PAR) section, agreed that they would obtain the needed information through meetings between the Fiscal Director from TDL&WD and the PAR Manager. It was agreed that no written Monitoring Plan would be necessary, if the necessary information could be obtained through a series of meetings.

As a result of the meetings, all subrecipient reviews that were prescribed in "Attachment A" of the contract between TDL&WFD and F&A were conducted. The Department takes the position that, although the development of a written monitoring plan is preferable, the cooperative approach used by the two agencies did result in adequate monitoring of subrecipients.

## **Rebuttal**

As stated in the finding and confirmed in management's comment, the Department of Labor and Workforce Development did not submit its annual monitoring plan or annual report in the form prescribed by Policy 22. This information should not be conveyed solely through meetings with the Department of Finance and Administration, Program Accountability Review (PAR) section, but documented by submission of a written monitoring plan or annual report.

**3. The department did not always obtain and review single audit reports of its subrecipients**

**Finding**

The Department of Labor and Workforce Development did not obtain and review the single audit reports for 9 of 11 subrecipients tested (82%) as required by Office of Management and Budget (OMB) Circular A-133. Single audit reports for the department's subrecipients who receive at least \$300,000 in funding were due March 31, 2001, nine months after the end of the fiscal year. Adequate procedures do not appear to be in place to ensure that these reports are received, reviewed for compliance with federal requirements, and followed up to ensure that subrecipients take prompt corrective action on any findings.

OMB Circular A-133 requires the Department of Labor and Workforce Development to monitor subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. OMB Circular A-133 also requires the department to ensure that required audits are performed and that subrecipients take prompt corrective action on any findings.

The department cannot determine subrecipients' compliance with applicable regulations if appropriate monitoring procedures are not performed and required audits are not obtained. Furthermore, funds could be used for objectives not associated with the grant, and subrecipient errors and irregularities could occur and not be detected.

**Recommendation**

The Commissioner should ensure that procedures are in place to ensure all required subrecipient single audit reports are received in a timely manner, reviewed for compliance with federal requirements, and followed up to ensure that subrecipients have taken prompt corrective action on all findings.

**Management's Comment**

We concur in part. The department received audit reports from seven of its subrecipients although one report was significantly late. The department did not have a formal process in place to assure that all subrecipients properly submitted their single audit reports to the department. The department has now developed a procedure to require subrecipients to send their single audit reports to the department's Internal Audit Section. Internal Audit will verify that all single audit reports are received and review the reports, highlighting any concerns it has about any of the subrecipients. The reports and Internal Audit's review will be given to the Fiscal Section for additional review and follow-up with the subrecipients.

---

## **EMPLOYMENT SERVICES**

Our objectives for reviewing Employment Services were to determine

- if policies and procedures were adequate;
- if funds were used for allowable purposes;
- if expenditures have been recorded correctly, supported, and charged to the to the proper grant;
- if the department expended federal funds within the period of availability;
- if funds were drawn down properly;
- if contracts and agreements for purchases of goods or services were awarded to parties that were not suspended or debarred; and
- if the required reports for federal awards included all activity of the reporting period, were supported by applicable records, and were presented in accordance with program requirements.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's policies and procedures over Employment Services. Supporting documentation for significant items and an additional nonstatistical sample of grant expenditures were reviewed and tested to determine if funds were used for allowable purposes, recorded correctly, supported, and charged to the proper grant. Financial reports, contracts, and expenditures were reviewed and traced to supporting documentation to determine if federal funds were expended within the period of availability and drawn down properly. Contracts and agreements in a nonstatistical sample were reviewed to ensure that purchases of goods and services were not awarded to parties that had been suspended or debarred. The amounts shown on financial reports were traced to supporting documentation to determine if the reports included all activity of the reporting period, were adequately supported, and were presented in accordance with program requirements.

Based on our interviews and reviews of supporting documentation, it appears that the policies and procedures were adequate. Our testwork indicated that funds appeared to be used for allowable purposes, and expenditures appeared to be recorded correctly, supported, and charged to the proper grant. Based on our review of financial reports, contracts, and expenditures, the department appeared to expend federal funds within the period of availability and funds were drawn down properly. Contracts and agreements were awarded to parties that had not been suspended or debarred. The amounts shown on financial reports traced to supporting documentation, included all activity of the reporting period, were adequately supported, and were presented in accordance with program requirements.

---

## **INFORMATION SYSTEMS**

Our primary objectives in the area of information systems were to

- gain an understanding of the general control environment,
- gain an understanding of the application controls for systems that will be relied on,
- determine if policies and procedures manuals and other system documentation is adequate and current,
- ensure high-priority program changes are made timely,
- ensure program changes are properly documented and approved,
- evaluate access to the system and the retention of authorized access forms,
- determine adequacy of error correction procedures, and
- assess the validity and reliability of computer-generated data.

We interviewed key department personnel to obtain an understanding of the department's primary systems. We determined that these systems were Unemployment Insurance (UI), the General Ledger, Cost Accounting Systems, and the Case Management & Activity System (CMATS).

UI is a mainframe application that maintains data from claims for Unemployment Insurance Benefits. The General Ledger application is designed to collect, analyze, and report Unemployment Insurance Trust Fund summary information. The Cost Accounting system is a mainframe application designed to collect, analyze, and report expenditures allocated by program according to federal regulations. The CMATS was designed to incorporate existing computer systems within the department and also to combine the department's Workforce Investment data with data from the Department of Human Services' Vocational Rehabilitation and Families First programs.

We interviewed key personnel and completed general control and application control questionnaires to gain an understanding of the controls for the system and reviewed policies and procedures and other system documentation to determine if these were adequate and current. Also, we reviewed the department's disaster contingency plan and documentation related to the testing of the plan. We tested nonstatistical samples related to employees' levels of access to the accounting systems to determine whether levels of access were appropriate and if security authorization forms were maintained and properly approved. A nonstatistical sample of program request logs were obtained and reviewed by the auditor to determine if high-priority program changes are made timely, properly documented, and approved. The error reports were obtained and reviewed by the auditor to determine if error correction and reconciliation procedures are adequate, and the computer-generated data are valid and reliable.

Based on our interviews, review of supporting documentation, and testwork, the department's policies and procedures manuals and other system documentation appear adequate and current. Furthermore, high-priority program changes are made timely, properly documented, and approved; error correction procedures appear adequate; and the computer-generated data appear valid and reliable. However, we determined that authorized system access forms were not maintained as discussed in finding 4.

## **Finding, Recommendation, and Management's Comment**

### **4. The department does not maintain access code authorization forms**

#### **Finding**

The department does not maintain access code authorization forms controlling access to departmental mainframe systems. Internal Audit is responsible for maintaining the access code authorization forms. User management is required by Internal Audit to request system access in writing. However, the Director of Internal Audit does not maintain access documentation beyond two years. After two years, these forms are destroyed.

Good security practices require an access code authorization form to be completed and maintained for each employee using departmental or state application systems. If the access privileges required by an individual legitimately change, a new authorization form should be completed prior to the changing of access rights. The Director of Internal Audit should maintain all completed authorization forms in a secure location for as long as the employee has access to departmental or state application systems. The failure to maintain access code authorization forms increases the possibility that access to sensitive systems and information may be granted to ineligible individuals and that authorization may be granted to employees in excess of what is warranted for their job responsibilities.

#### **Recommendation**

The Director of Internal Audit should maintain access code authorization forms for all employees who have access to departmental or state application systems. If an employee's access level changes, a new authorization form should be completed and maintained. These forms should be maintained for as long as the employee has system access.

#### **Management's Comment**

We do not concur. Internal Audit maintained access code authorization forms and all related paperwork for two years and the current year. Internal Audit had not previously been informed of any standard requiring it to keep the paperwork as long as an individual accesses a system. After the field exit conference, which was held on February 14, 2002, Internal Audit was given information on RDA S836-5, which can serve as such a standard.

Internal Audit staff receives properly prepared and approved authorization forms from supervisors before employees are added to any mainframe system. All changes in system access are also authorized in writing before the change is made. The documentation is reviewed and reconciled to transaction reports from ESCOT, TRUMP, and RACF before being filed. Internal Audit will develop a system to maintain the authorization forms and related paperwork indefinitely.

## **Rebuttal**

As stated in the finding, failure to maintain access code authorization forms increases the possibility that access to sensitive systems and information may be granted to ineligible individuals and that authorization may be granted to employees in excess of what is warranted for their job responsibilities. Also, state and federal laws, rules, and regulations are readily available to the Director of Internal Audit via the Internet.

---

### **REVENUE**

Our objectives for reviewing revenue controls and procedures were to determine whether

- internal controls were adequate,
- the department reconciled revenue records with revenue reports,
- the department maintained proper documentation for each journal voucher,
- transactions were properly documented,
- receipts agreed with amounts deposited,
- deposit slips were properly completed,
- departmental records were reconciled with STARS (State of Tennessee Accounting and Reporting System),
- funds were properly controlled and deposited intact, and
- funds were deposited in a timely manner.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over revenues. We reviewed reconciliations of revenue records with revenue reports. We also tested a nonstatistical sample of revenue transactions and conducted cash counts.

We determined based on our interviews, review of supporting documentation, and testwork, that internal controls appeared adequate. The department reconciled revenue records with revenue reports and maintained proper documentation. Also, we determined that transactions were properly documented and recorded, receipts agreed with amounts deposited, deposits were completed properly, departmental records were reconciled with STARS, and funds were properly deposited intact and in a timely manner.

---

### **PAYROLL**

The objectives for our review of controls and procedures over payroll were to determine whether

- payroll costs were computed using rates and other factors in accordance with contracts and relevant laws and regulations,
- payroll was allocated properly, and
- annual performance evaluations of civil service employees were performed in a timely manner.

We interviewed key departmental personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payroll. We tested payroll transactions to determine if payroll costs were adequately supported, properly computed, and properly allocated. We also tested a sample of civil service employees to determine if annual performance evaluations were performed in a timely manner.

Based on our interviews, review of supporting documentation, and testwork, we determined that controls appear adequate. We also determined that payroll costs were adequately supported, properly computed, and properly allocated. We also determined that civil service employees were not always evaluated in a timely manner. This minor weakness was reported to management in a separate letter.

---

## **EMPLOYMENT SECURITY TRUST FUND**

Our objective for reviewing the employment security trust fund was to determine whether the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements.

We recalculated the financial statements to determine their accuracy, traced amounts to the supporting documentation, and verified account classifications. We compared the current-year financial statements with the prior-year financial statements to determine any reporting changes. We also compared the amounts between current-year financial statements and prior-year financial statements and obtained explanations for any significant variances. Our testwork also consisted of calculation of unemployment taxes paid by employers; tests of receivable balances; confirmation of cash balances and interstate benefits receivable; and tests of receivables, revenues and expenditures, and analytical procedures to determine if the financial statements are fairly presented.

We determined that the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements. We also reported minor weaknesses to management in a separate letter.

---

## **CONTINGENT AND DEFERRED REVENUE**

The objective of our review of controls and procedures for contingent and deferred revenue were to determine whether

- department records reconciled to the State of Tennessee Accounting and Reporting System (STARS),
- transfers of contingent and deferred revenue to earned revenue were made in a timely manner, and
- contingent and deferred revenue accounts are used for the proper purpose.

We interviewed key personnel to gain an understanding of the department's procedures and controls over contingent and deferred revenue. We also tested a nonstatistical sample of selected accounts and reviewed supporting documentation to determine whether department records and STARS reconciled, contingent and deferred revenue accounts were proper, and transfers were made timely.

Based on our interviews, reviews, and testwork, we determined that departmental records reconciled to STARS, transfers were made in a timely manner, and the accounts were used for the proper purpose.

---

## **INTERNAL AUDIT**

The objectives of our review of the controls and procedures for Internal Audit were to determine whether

- internal auditors had the education, experience, and supervision needed for their work to be relied on;
- the Internal Audit Division was independent of the program functions of the department;
- Internal Audit submitted its annual plan and the department's Financial Integrity Act of 1983 compliance letter in a timely manner; and
- the Internal Audit Division issued audit reports in compliance with established policies and procedures.

We interviewed key department personnel to obtain an understanding of the department's controls and procedures for the Internal Audit Division, and we reviewed supporting documentation for these controls and procedures. We reviewed the department's organization chart and interviewed the director of compliance to determine whether the Internal Audit Division was independent of the program functions of the department. We reviewed personnel files including supporting documentation to determine whether the internal auditors had the

education and experience needed for their work to be relied on by other auditors. We obtained Internal Audit's annual plan and the department's Financial Integrity Act of 1983 compliance letter. We also obtained and reviewed a listing of all audits completed during the audit period to determine if all of the audit reports issued were in compliance with the established policies and procedures.

Based on our interviews, review of supporting documentation, and testwork, we determined that the internal auditors had the education, experience, and supervision needed for their work. The Internal Audit Division is independent of the program function of the department, submitted its annual plan and the department's Financial Integrity Act of 1983 compliance letter in a timely manner, and issued audit reports in compliance with established policies and procedures.

---

## **TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

Section 4-4-123, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Labor and Workforce Development has not filed its compliance report and implementation plan as noted in finding 5.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

### **Finding, Recommendation, and Management's Comment**

5. **The Department of Labor and Workforce Development did not prepare and submit annual Title IX compliance reports and implementation plan updates**

#### **Finding**

The Department of Labor and Workforce Development did not prepare and submit annual Title IX compliance reports and implementation plan updates to the Department of Audit by June 30, 2001. Section 4-4-123, *Tennessee Code Annotated*, requires the department's implementation plan to include the Title IX implementation plans of any subrecipients who receive federal funds through the department. Title IX compliance reports and implementation plan updates are to be submitted to the Department of Audit by June 30, 1999, and each June 30 thereafter.

Title IX of the Education Amendments Act of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

The absence of Title IX implementation plans, annual compliance reviews, and plan updates could indicate inadequate attention is given to preventing discrimination on the basis of gender.

### **Recommendation**

The Commissioner of the Department of Labor and Workforce Development should ensure that the annual Title IX compliance reports and implementation plan updates with regard to the department's subrecipients are prepared and submitted to the Department of State Audit by June 30 each year.

### **Management's Comment**

We do not concur. The Department of Labor and Workforce Development, with assistance from the U.S. Department of Labor's Center for Civil Rights, developed and updates regularly a *Method of Administration Manual* (MOA); this document contains the nine elements listed below as described in 29CFR part 37.

Element Number	Description
Element 1	Designation of state- and local-level Equal Opportunity (EO) Officers (29 CFR 37.54(d)(ii))
Element 2	Notice and Communication (29CFR 37.54(d)(1)(iii))
Element 3	Review assurances, job training plans, contacts, and policies and procedures (29CFR 37.54(d)(1)(I) and (d)(2)(I), (iii) and (iv))
Element 4	Universal Access (29CFR 37.54(d)(2)(v))
Element 5	Compliance with section 504 of the Rehabilitation Act of 1973, as amended and 29CFR part 37 (29CFR 37.54 (d)(2)(v))
Element 6	Data and Information Collection and maintenance (29CFR 37.54(d)(1)(iv) and (vi))

Element 7	Monitor Recipients for Compliance (29CFR 37.54(d)(2)(ii))
Element 8	Complaint Processing Procedures (29CFR 37.54(d)(1)(v))
Element 9	Corrective Action/Sanctions (29CFR 37.54(d)(2)(vii))

The Departments’ MOA, approved by the Governor and by the U.S. Department of Labor, Center for Civil Rights, prohibits discrimination which includes sex in any of the programs or services provided by either the department or our sub-recipients. Title IX patterns Title VI, the same requirements found in Titles VI and IX are required in the MOA. The MOA contains documentation from each of our 13 LWIA’s (an abridged MOA—LWIA’s Strategic Plan) and our state department, which illustrates how they/we insure persons are not discriminated against for any reason. Because the MOA contains all requirements and the lack of clarity in the state law about whether it applies to this department, we felt that the MOA satisfied all requirements.

### **Rebuttal**

As stated in the finding, Section 4-4-123, *Tennessee Code Annotated*, requires the department’s implementation plan to include the Title IX implementation plans of any subrecipients who receive federal funds through the department. In order to ensure compliance with this state law, the department should submit the annual Title IX compliance reports and implementation plan updates with regard to its subrecipients to the Department of State Audit by June 30 each year.

---

## **OBSERVATIONS AND COMMENTS**

---

### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated*, Section 4-21-901, 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 each June 30. The Department of Labor and Workforce Development filed its compliance report and implementation plan on June 26, 2001.

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 national 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

---

### DIVISIONS AND ALLOTMENT CODES

Department of Labor and Workforce Development divisions and allotment codes:

337.01	Division of Administration
337.02	Tennessee Occupational Safety and Health Administration
337.03	Workers' Compensation
337.04	Division of Mines
337.05	Boilers and Elevators
337.06	Labor Standards
337.07	Employment and Training
337.08	Second Injury Compensation Fund
337.09	Adult Basic Education
337.10	Employment Security
337.11	Employment Development
337.12	Special Administrative
337.13	Employment Security Building Program
337.14	Uninsured Employers Fund
337.99	Employment Security Trust Fund