

Department of Human Services

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

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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

May 16, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Natasha K. Metcalf, Commissioner
Department of Human Services
400 Deaderick Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Human Services 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
01/120



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

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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 Human Services 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 Human Services' compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Human Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

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

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Human Services' 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 Human Services
For the Year Ended June 30, 2001

AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 2000, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas related to the *Comprehensive Annual Financial Report* and the *Single Audit Report*. We reviewed management controls and compliance for the following major programs: Food Stamps, State Administrative Matching Grants for Food Stamp Program, the Child and Adult Care Food Program, the Summer Food Service Program for Children, Rehabilitation Services-Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families (TANF), Child Support Enforcement, the Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Low-Income Home Energy Assistance, the Social Services Block Grant, and Social Security Disability Insurance. We reviewed the department's Schedule of Expenditures of Federal Awards. We also reviewed the activities of the Internal Audit Division. In addition to those areas, we focused on management's controls and compliance with the Financial Integrity Act and Department of Finance and Administration Policy 22, "Subrecipient Monitoring." The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDINGS

Electronic Benefits Transfer Auditor Reports Were Not Obtained*

The department did not ensure that required copies of Service Auditor Reports for one of the department's outside providers of Electronic Benefits Transfer (EBT) services were obtained in accordance with federal requirements (page 8).

Adequate Records Were Not Kept on Vocational Rehabilitation Equipment

Testwork on a sample of this program's equipment disclosed that some pieces could

not be found, others were not at the location shown in the equipment records, and some were missing their state tags (page 17).

Computer Datasets Were Not Adequately Protected

A number of computer mainframe files were found to be unprotected by the normal security procedures (page 23).

Security Over Computer Systems Access Inadequate**

Controls over access to the Tennessee Child Support Enforcement System (TCSES), the

Automated Client Certification and Eligibility Network (ACCENT), and the Resource Access Control Facility (RACF) were inadequate (page 24).

Inadequate Administration of the Temporary Assistance for Needy Families Program

The department was not properly monitoring caseworkers' performance in all districts across the state. Additionally, testwork on sample cases disclosed that there had not been a reduction of benefits for child support noncooperation and noncompliance with work requirements (page 27).

Inadequate Documentation About Enrollees' Eligibility for Food Stamps and Temporary Assistance for Needy Families

The only hard-copy documentation that the department requires its eligibility counselors to maintain is the enrollee's application. The department monitors the accuracy of its eligibility counselors through quality control samples (page 31).

Child Support Enforcement Programmers Have Conflict of Interest

Several contract employees involved in Child Support Enforcement programming were found to be either paying child support, receiving child support, or in the process of

petitioning the court to establish paternity (page 39).

Noncompliance With Child Support Enforcement Procedures**

Testwork on sample cases disclosed that there was noncompliance in the areas of establishment of paternity and support obligation, medical support, and interstate cases. Also, the amount of undistributed child support collections shown on TCSES does not agree with the department's accounting records (page 40).

Noncompliance With State Inspection Requirements for Childcare Providers**

The department did not always perform the required number of unannounced inspections of licensed childcare providers. The department did not always document its investigations of complaints about childcare providers in its Tennessee Child Care Maintenance System (TCCMS) (page 46).

Inadequate Procedures for Ensuring That Subrecipients Obtain and Submit a Single Audit Report

The department did not adequately maintain a listing of subrecipients who are required to file a single audit report. As a result, several subrecipients did not file a report with the department (page 54).

* 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 that contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Human Services
For the Year Ended June 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	3
PRIOR AUDIT FINDINGS	3
Resolved Audit Findings	3
Repeated Audit Findings	3
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	4
Areas Related to Tennessee's <i>Comprehensive Annual Financial Report</i> and <i>Single Audit Report</i>	4
Major Federal Award Programs	
Food Stamps/State Administrative Matching Grants for Food Stamp Program	5
Finding 1 Electronic Benefits Transfer Service Auditor Reports not obtained	8
Child and Adult Care Food Program	10
Summer Food Service Program for Children	12
Rehabilitation Services - Vocational Rehabilitation Grants to States	14
Finding 2 Adequate records are not kept on Vocational Rehabilitation equipment	17
Temporary Assistance for Needy Families	19
Finding 3 DHS datasets not protected by RACF security software	23
Finding 4 Security over computer systems needs improvement	24
Finding 5 The department did not always properly administer the Temporary Assistance for Needy Families program	27

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
Finding 6 The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps	31
Child Support Enforcement	36
Finding 7 The agency needs to improve its monitoring of Child Support Enforcement programmers' conflicts of interest	39
Finding 8 The department did not comply with Child Support Enforcement procedures	40
Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund	43
Finding 9 Unannounced inspections of licensed child care providers were not always performed, and complaint investigations were not always documented	46
Low-Income Home Energy Assistance	48
Social Services Block Grant	50
Social Security – Disability Insurance	52
Schedule of Expenditures of Federal Awards	53
Subrecipient Monitoring	54
Finding 10 The department does not have procedures in place to ensure that subrecipients file a single audit report	54
Contingent Revenue	55
Internal Audit	56
Financial Integrity Act	57
Department of Finance and Administration Policy 22, “Subrecipient Monitoring”	57
OBSERVATIONS AND COMMENTS	58
Title VI of the Civil Rights Act of 1964	58
Title IX of the Education Amendments of 1972	59
APPENDIX	59
Divisions and Allotment Codes	59

Department of Human Services 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 Human Services. 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

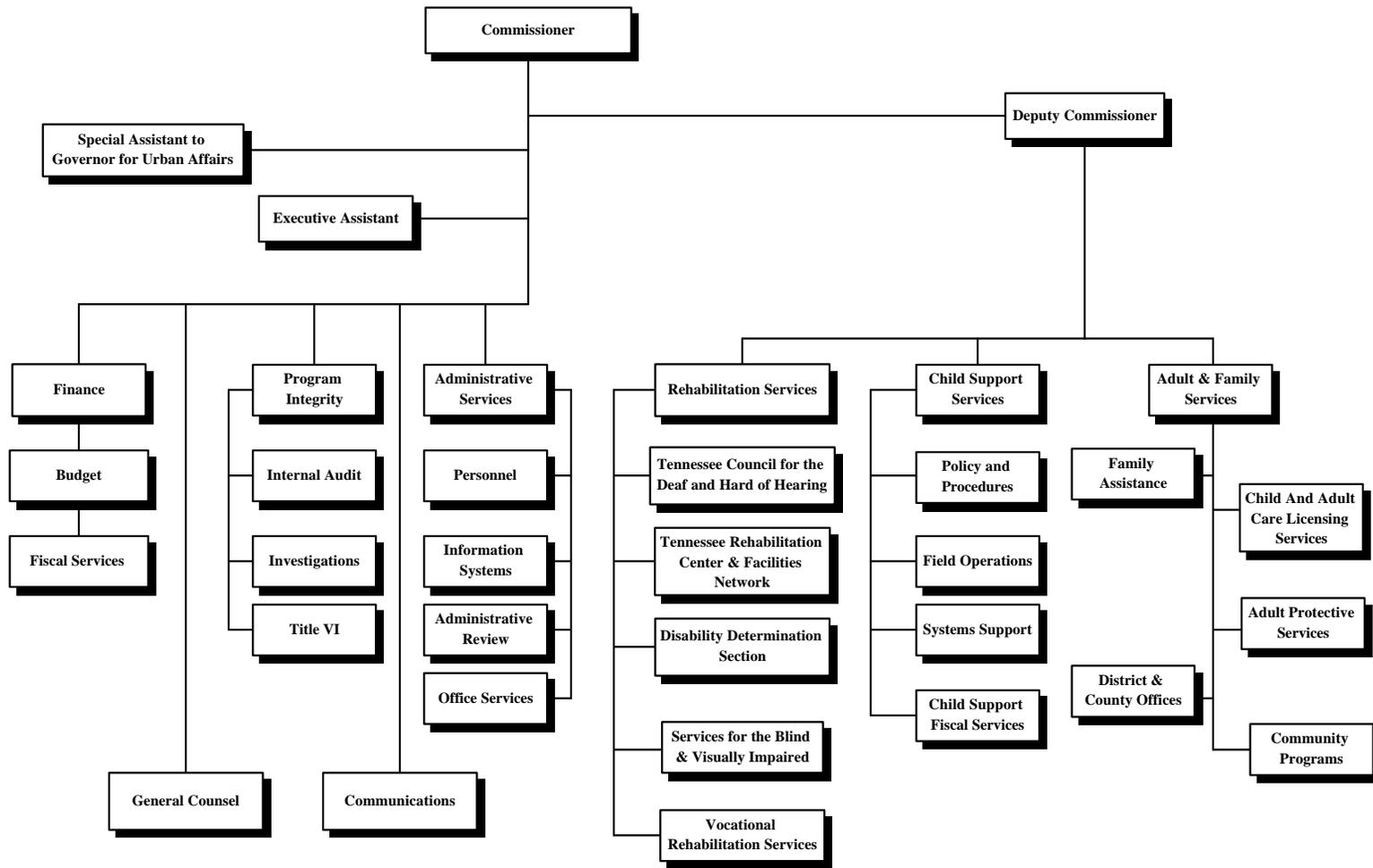
The mission of the Department of Human Services is to provide an effective system of services for disadvantaged, disabled and vulnerable Tennesseans to improve their quality of life. The department works to serve, aid, and protect needy and vulnerable children and adults in ways that encourage personal responsibility, family preservation, and improvement in their overall quality of life. The department carries out its program responsibilities through three divisions: Rehabilitation Services, Adult and Family Services, and Child Support Services.

One of the department’s main responsibilities is to operate Tennessee’s major public assistance programs: Families First/TANF and Food Stamps. The department also strives to protect vulnerable adults and provides for a wide range of other services designed to help low-income children, adults, and their families through an extensive contract services network. The agency also helps Tennesseans with disabilities gain employment, live as independently as possible in the least restrictive environment, and receive timely and accurate decisions on their applications for disability or supplemental security income (SSI) benefits.

In addition, the department also provides services to parents seeking financial assistance for their children from the absent parent. The department also monitors both licensed and registered childcare facilities.

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

Tennessee Department of Human Services



AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 2000, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas related to the *Comprehensive Annual Financial Report* and the *Single Audit Report*. We reviewed management controls and compliance for the following major programs: Food Stamps, State Administrative Matching Grants for Food Stamp Program, the Child and Adult Care Food Program, the Summer Food Service Program for Children, Rehabilitation Services–Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families (TANF), Child Support Enforcement, the Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Low-Income Home Energy Assistance, the Social Services Block Grant, and Social Security Disability Insurance. We reviewed the department's Schedule of Expenditures of Federal Awards. We also reviewed the activities of the Internal Audit Division. In addition to those areas, we focused on management's controls and compliance with the Financial Integrity Act and Department of Finance and Administration Policy 22, "Subrecipient Monitoring." 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 Human Services filed its report with the Department of Audit on August 1, 2001. 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 Department of Human Services has corrected the previous audit findings concerning Local Area Network security and Resource Access Control Facility ALTER access.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the Electronic Benefits Transfer Service Auditor Report not being obtained, inadequate security over computer systems,

noncompliance with child support enforcement procedures, and noncompliance with state licensing requirements concerning unannounced inspections of licensed child care providers. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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

Our audit of the Department of Human Services 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 Human Services 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 that the following areas within the Department of Human Services were material to the *CAFR* and to the *Single Audit Report*: Food Stamps, State Administrative Matching Grants for Food Stamp Program, the Child and Adult Care Food Program, the Summer Food Service Program for Children, Rehabilitation Services–Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families (TANF), Child Support Enforcement, the Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Low-Income Home Energy Assistance, the Social Services Block Grant, and Social Security Disability Insurance.

To address the objectives of the audit of the *CAFR* and the *Single Audit Report*, as they pertain to the 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 and material weaknesses resulting from this audit.

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

- The department does not have procedures in place to ensure that subrecipients file a single audit report
- Electronic Benefits Transfer Service Auditor Reports not obtained
- Adequate records are not kept on Vocational Rehabilitation equipment
- DHS datasets not protected by RACF security software
- Security over computer systems needs improvement
- The department did not always properly administer the Temporary Assistance for Needy Families program
- The department did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps
- The department did not comply with Child Support Enforcement procedures
- The department needs to improve its monitoring of Child Support Enforcement programmers' conflicts of interest

FOOD STAMPS/STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM

The objective of the Food Stamp Program is to help low-income households buy the food they need for good health.

Our objectives in auditing the Food Stamp and State Administrative Matching Grants for Food Stamp program focused on whether

- the department has controls in place which ensure that all program requirements are satisfied,
- expenditures charged to the program are in compliance with all federal requirements,
- the department has controls in place which ensure that only allowable costs are charged to indirect cost centers,
- the department complies with the state's indirect cost allocation plan,

- internal controls over payroll allocation are adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs are being allocated in compliance with department procedures,
- information on federal reports can be traced or reconciled to adequate supporting documentation,
- the department complies with the applicable federal regulations related to cash management,
- the department complies with applicable federal regulations dealing with the Automated Data Processing (ADP) system,
- the department complies with applicable federal regulations regarding Electronic Benefits Transfer (EBT) reconciliation,
- the department complies with applicable federal regulations dealing with issuance document security,
- the department complies with applicable federal regulations dealing with the operation of the quality control unit, and
- the department maintained adequate documentation of enrollees' information used to determine eligibility for food stamps.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk.

The department has contracted with Citibank EBT Services to provide payments of Food Stamps, Social Security, and Families First benefits to recipients through the use of EBTs. These benefits are to be made available to recipients through a network of automated teller machines (ATMs) and point-of-sale terminals at participating retailers. Citibank has subcontracted portions of the required services to eFunds (formerly Deluxe Electronic Payment Systems) and Lockheed Martin, I.M.S. For this part of the program, we determined whether the department obtained the required Statement of Auditing Standards (SAS) 70 Service Auditor Report. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a non-statistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;

- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected one quarter's reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- selected a non-statistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- attempted to obtain a copy of the SAS 70 service auditor report for the organizations which administer the EBT program;
- performed tests to determine if the ADP system provides data necessary to meet federal issuance and reconciliation reporting requirements;
- selected a non-statistical sample of EBT reconciliations and tested them to determine if discrepancies were investigated and resolved, and tested the same sample of EBT reconciliations to determine if retailer credits were reconciled to the information entered into the Automated Clearinghouse network and the amount of funds drawn down by the state's fiscal agent;
- determined if the state or its contractor has recorded any non-federal liabilities in the daily EBT reconciliation;
- reviewed the activities of the quality control unit and determined if the unit had adequate independence from program administration; and
- interviewed key personnel regarding maintaining documentation to support enrollees' eligibility.

As a result of the testwork, we determined that

- the department does not always have controls in place which ensure that all program requirements are satisfied (discussed in finding 1),
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements,

- payroll expenditures for major programs were being allocated in compliance with department procedures,
- the information on federal reports could be traced or reconciled to adequate supporting documentation,
- the department complied with the applicable federal regulations related to cash management,
- the department did not completely comply with applicable federal regulations dealing with the Automated Data Processing (ADP) system (discussed in finding 1),
- the department complied with applicable federal regulations dealing with EBT reconciliation,
- the department did not obtain a copy of the SAS 70 service auditor report for the organizations which administer the EBT program as noted in finding 1,
- the department complied with applicable federal regulations dealing with the operation of the quality control unit, and
- the department did not maintain adequate documentation of enrollees' information used to determine eligibility for food stamps as discussed in finding 6.

Minor weaknesses were reported to management in a separate letter.

1. Electronic Benefits Transfer Service Auditor Reports not obtained

Finding

As noted in the prior audit, the Department of Human Services (DHS) failed to ensure that required copies of Service Auditor Reports for one of the department's outside providers of Electronic Benefits Transfer (EBT) services were obtained in accordance with federal requirements for administration of the Food Stamp Program.

The department has contracted with Citibank EBT Services to provide payments of food stamp, Social Security, and Families First benefits to recipients through the use of EBTs. These benefits are to be made available to recipients through a network of automatic teller machines (ATMs) and point-of-sale terminals at participating retailers. Citibank has subcontracted portions of the required services to eFunds (formerly Deluxe Electronic Payment Systems) and Lockheed Martin, I.M.S. The Statement on Auditing Standards (SAS) 70 Service Auditor Report is the result of a review of a service provider (such as Citibank or its subcontractors), performed by an independent audit team, the purpose of which is to express an opinion on the service provider's internal controls during the audit period.

Effective March 30, 2000, the *Code of Federal Regulations*, Title 7, Section 274.12(j)(5), requires the following:

The state agency must obtain an examination by an independent auditor of the transaction processing of the State EBT service provider regarding the issuance, redemption, and settlement of Food Stamp Program benefits. The examination must be done at least annually and the report must be completed ninety days after the examination period ends. Subsequent examinations must cover the entire period since the previous examination. Examinations must follow the requirements of the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 70, Service Organizations (SAS No. 70), for reports on controls placed in operation and tests of the operating effectiveness of the controls.

Additionally, prior to the commencement of state audit fieldwork, DHS management agreed to obtain the necessary SAS 70 Service Auditor Reports by signing the engagement letter with the Division of State Audit, which specifically stated:

At the conclusion of the audit, you will provide us a representation letter that will confirm, among other things . . . management's responsibility to ensure that SAS 70 examinations of EBT service organizations are performed at least annually, and that examination reports are submitted to the state within 90 days after the end of the examination period.

Management concurred with the prior-year audit finding and made the following statement regarding the lack of the Service Auditor Reports:

The department will ensure that the Service Auditor Service reviews are performed on Citibank and its subcontractors, and that the Auditor Service Reports are obtained by the department in a timely manner.

The DHS Director of EBT was initially contacted in July 2001, at which time the audit team requested copies of the fiscal year 2001 SAS 70 reports for Citibank, Lockheed Martin I.M.S., and eFunds. SAS 70 reports for Citibank and for Lockheed Martin I.M.S. were received in late September 2001. SAS 70 reports for eFunds were not received.

Because management has not obtained a SAS 70 Service Auditor report for the current audit period, the department has not received assurance that controls placed in operation by eFunds were effective for that period. Also, the department has not complied with the requirements of the *Code of Federal Regulations*, Title 7, Section 274.12(j)(5).

Recommendation

DHS management should ensure that SAS 70 Service Auditor reviews are performed on EBT service providers in accordance with the *Code of Federal Regulations* and that the Service Auditor Reports are obtained by the department.

Management's Comment

We concur. The department has been working with Citibank to resolve this issue. A contract amendment has been drafted, which incorporates the SAS 70 requirement found in the *Code of Federal Regulations*, Title 7, Section 274.12(j)(5). Our current contract language incorporated the SAS 70 requirements contained in the Contractor's obligations described in the document entitled Invitation for Expression of Interest to Acquire EBT Services for the Southern Alliance of States issued by the U.S. Treasury and dated March 9, 1995. As this language does not conform to the requirements found in the *Code of Federal Regulations*, Title 7, Section 274.12(j)(5), the amendment has been developed to resolve this discrepancy. We had originally anticipated that the contract amendment would be in place before the publication of the audit findings. However, negotiations with Citibank concerning the contract language for other services covered in the amendment have delayed the process. The final contract amendment is currently under review by F&A contract staff. We are anticipating the changes will be approved and forwarded to the contractor (Citibank) by April 1, 2002.

CHILD AND ADULT CARE FOOD PROGRAM

The Child and Adult Care Food Program helps to initiate and maintain nonprofit food service programs for eligible children and adults in nonresidential day care settings.

Our objectives in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were being allocated in compliance with department procedures,
- the department complied with federal cash management requirements,
- the department complied with federal subrecipient eligibility requirements,
- the department complied with federal reporting requirements, and
- the department complied with federal and state subrecipient monitoring requirements.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the

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

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities and allowable costs;
- selected a non-statistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- reviewed the department's procedures for selecting subrecipients and tested them for compliance with applicable federal regulations;
- selected reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- selected a nonstatistical sample of subrecipients and tested them to determine if subrecipients had a risk assessment and if all high-risk subrecipients were monitored during the audit period;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133;
- selected a nonstatistical sample of monitoring working papers and tested them to determine if monitoring requirements were met; and
- obtained a listing of all subrecipients who were monitored and had findings, determining if the department had properly followed up on the findings and either recovered the disallowed costs or ensured that the improper procedures were corrected.

As a result of the testwork, we determined that

- the department had controls in place which ensured that all program requirements were satisfied,

- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were being allocated in compliance with department procedures,
- the department complied with federal cash management requirements,
- the department complied with federal subrecipient eligibility requirements,
- the department complied with federal reporting requirements except for a minor weakness, and
- the department has complied with federal and state subrecipient monitoring requirements, except as noted in finding 10 and on page 57.

A minor weakness was reported to management in a separate letter.

SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

The Summer Food Service Program for Children assists approved sponsors in providing healthful and nutritious meals to children in low-income areas when school is closed for vacation.

Our objectives in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,

- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,
- the department complied with the requirements dealing with federal reports,
- the department complied with federal cash management requirements,
- the department complied with the requirements dealing with subrecipient eligibility, and
- the department complied with requirements dealing with subrecipient monitoring.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- reviewed the department's procedures for selecting subrecipients and tested them for compliance with applicable federal regulations;

- selected a nonstatistical sample of subrecipients and tested them to determine if they had a risk assessment and that all high-risk subrecipients were monitored during the audit period;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133; and
- reviewed the working papers for the one subrecipient that was monitored during the audit period and tested it to determine if monitoring requirements were met.

As a result of the testwork performed, we determined that

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,
- the department complied with the requirements dealing with federal reports except for a minor weakness,
- the department complied with federal cash management requirements,
- the department complied with the requirements dealing with subrecipient eligibility, and
- the department complied with the requirements regarding subrecipient monitoring, except as noted on page 57.

A minor weakness was reported to management in a separate letter.

REHABILITATION SERVICES–VOCATIONAL REHABILITATION GRANTS TO STATES

The Rehabilitation Services-Vocational Rehabilitation Grants to States program assists states in operating statewide comprehensive, coordinated, effective, efficient, and accountable vocational rehabilitation programs.

Our objectives in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,
- equipment purchased with federal funds were properly accounted for and used in the administration of the program,
- the department complied with the federal reporting requirements,
- the department complied with federal matching requirements,
- the department complied with federal maintenance of effort requirements,
- the department complied with federal period of availability requirements,
- the department has complied with the federal requirements dealing with program income,
- the department complied with the federal cash management requirements,
- the department complied with federal participant eligibility requirements,
- the department complied with federal requirements dealing with the individual plan for employment,
- the department complied with federal requirements dealing with comparable services and benefits, and
- the department complied with federal and state requirements dealing with subrecipient monitoring, except as noted on page 57.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- selected a nonstatistical sample of equipment being used in the program and determined if the equipment could be located, was properly identified, and was being used in the program;
- tested the quarterly reports selected above for proper matching, maintenance of effort, and period of availability;
- obtained a listing all transactions in which program income was transferred out of the program's contingent revenue accounts and determined if the income was moved into a revenue account for the program;
- selected a nonstatistical sample of participants in the program and tested each for compliance with federal requirements dealing with eligibility, the individual plan for employment, and comparable services and benefits;
- obtained the listing of all subrecipients that had been monitored during the fiscal year, determining if all high-risk subrecipients had been monitored and all other subrecipients had been monitored within the past three years;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133;
- reviewed the monitoring working papers for all subrecipients monitored during the fiscal year and tested them to determine if monitoring requirements were met; and
- obtained a list of subrecipients that had received findings and questioned costs and determined if the department had performed adequate follow-up.

As a result of the testwork, we concluded the following:

- the department had controls in place which ensured that all program requirements were satisfied,

- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,
- equipment purchased with federal funds was properly accounted for and used in the administration of the program except as noted in finding 2,
- the department complied with the federal reporting requirements except for minor weaknesses,
- the department complied with federal matching requirements,
- the department complied with federal maintenance of effort requirements,
- the department complied with federal period of availability requirements,
- the department complied with the federal requirements dealing with program income,
- the department complied with the federal cash management requirements,
- the department complied with federal participant eligibility requirements,
- the department complied with federal requirements dealing with the individual plan for employment,
- the department complied with federal requirements dealing with comparable services and benefits, and
- the department complied with federal and state requirements dealing with subrecipient monitoring, except as noted in finding 10 and on page 57.

In addition, other minor weaknesses were reported to management in a separate letter.

2. Adequate records are not kept on Vocational Rehabilitation equipment

The Department of Human Services (DHS) does not maintain proper accountability over Vocational Rehabilitation equipment. Testwork performed on a sample of 23 pieces of equipment assigned to the Vocational Rehabilitation Services program, shown on the Property of the State of Tennessee (POST) system, revealed the following weaknesses:

- a. Two of 23 equipment items (9%) could not be located: a mower costing \$7,249 and a refrigerator costing \$5,446. Management stated that the mower had been surplused; but this piece of equipment was still listed as active in POST.
- b. Three of 21 equipment items (14%) were not at the location shown in POST. One item, a vending machine costing \$5,012, was shown as being in McMinnville but was actually in Chattanooga. Another vending machine costing \$9,132 was shown in POST as being at the DHS office in Johnson City; however, it was actually located at the post office in Johnson City. An additional vending machine costing \$5,778 was shown in POST as being in Henning but was actually located in Ripley.
- c. Three of 21 equipment items tested (14%) did not have a State of Tennessee property tag attached. One was a counter cabinet stand costing \$14,864, one was a commercial range costing \$24,367, and one was a steam kettle cooker costing \$13,024.

In addition, the property officer had only completed 88% of the department's year-end physical inventory of equipment as of August 27, 2001. Management stated it did not complete the inventory because the department has a large amount of equipment and does not have sufficient staff to complete the inventory by the due date.

The Department of General Services' state property officer sent a memo to DHS's property officer which outlined the department's responsibilities concerning equipment. The memo including the following statement:

The annual count of fixed assets and sensitive equipment owned by your department begins March 1, 2001 and is to be completed by June 1, 2001.

Failure to properly record equipment weakens accountability for equipment and may result in the loss of equipment.

Recommendation

The commissioner should establish procedures to ensure that equipment records are promptly updated when equipment is moved and that all appropriate items have a state tag attached. The property officer should review the POST listing periodically to ensure that equipment which should have been surplused has been removed from the POST listing. A complete physical inventory should also be performed at least annually and by the required deadline.

Management's Comment

We concur.

- a. The mower referred to in the finding was transferred to the Department of General Services (DGS) and became part of the Equipment Revolving Fund (ERF). During 1993-1994, the ERF program became responsible for and took ownership of all motorized equipment costing \$1,000 or more. Pursuant to this change, the Department of General Services, Motor Vehicle Management, was given ownership of this mower and it was sold in 1996. However, the mower was not removed from the DHS inventory list. On February 5, 2002, the DHS Property Officer requested DGS to remove the mower from the DHS inventory list.

Another piece of equipment referred to in the finding is a refrigerator. This equipment is a cold food vending machine, not a refrigerator. The paperwork shows that it was removed from the vending facility and replaced with a new one. The person who moved the old machine indicates that the old machine was delivered to Tennessee Business Enterprise's (TBE) warehouse in Chattanooga. However, the machine cannot be located.

- b. TBE was able to locate the three vending machines in a location different from what is shown on POST. The TBE program has procedures in place to properly account for equipment. However, TBE frequently moves equipment from one vending facility to another depending upon the needs. Every attempt is made to record the transfer of equipment, but occasionally the transfers are not entered into POST. We conduct an annual equipment inventory in accordance with DGS procedures, and any discrepancies are reconciled.
- c. Originally, state tags were affixed to the equipment. Due to heat and heavy traffic in these facilities, tags sometimes fall off. We will continue to ensure that state tags are attached to all appropriate items.

We will ensure that an annual equipment inventory is completed in a timely manner and any movement of equipment including surplus is properly recorded in POST.

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

The objectives of the Temporary Assistance for Needy Families program are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This program replaced the Aid to Families with

Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Our objectives in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied;
- computer resources were planned, managed, and used effectively;
- an adequate business recovery plan had been implemented;
- user access to the Automated Client Certification and Eligibility Network (ACCENT) system and the Resource Access Control Facility (RACF) was adequately controlled;
- adequate controls were in place over ACCENT program changes;
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state's indirect cost allocation plan;
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures for major programs were allocated in compliance with department procedures;
- the department complied with the federal cash management requirements;
- the department complied with the federal reporting requirements;
- the department complied with federal earmarking requirements;
- the department complied with federal maintenance of effort requirements;
- the department complied with the federal period of availability requirements;
- the department complied with the federal child support noncooperation requirements;
- the department complied with the federal participant eligibility requirements;
- the department complied with the federal requirements dealing with penalties for refusal to work; and
- the department complied with the federal requirements dealing with parents with children under six.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and

reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. We interviewed key department personnel to gain an understanding of the department's procedures and controls over the ACCENT system. We obtained and reviewed the department's three-year information systems plan and other departmental policies. We obtained datasets of the ACCENT and RACF security tables and performed computer-assisted analytical procedures concerning the levels of access provided to certain users. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected reports and determined if the information in the reports could be traced or reconciled to adequate supporting documentation, federal earmarking, maintenance of effort, and period of availability requirements;
- obtained a nonstatistical sample of cases in which it had been determined that the participant was not cooperating with the state and tested them for compliance with federal regulations;
- selected a nonstatistical sample of participants in the program and used the information in ACCENT to determine if the department complied with program eligibility requirements;
- selected a nonstatistical sample of cases in which the individual was not working and determined if the benefits were reduced or denied to individuals who were not exempt under state rules or did not meet state good-cause criteria; and
- selected a nonstatistical sample of adult single custodial parents caring for a child under six years of age whose benefits had been reduced or terminated and tested the cases for compliance with federal requirements.

As a result of the testwork, we determined that

- the department did not have in place adequate controls which ensured that all program requirements were satisfied (discussed in findings 3, 4, 5, and 6);

- computer resources were not always planned, managed, and used effectively (discussed in findings 3 and 4);
- an adequate business recovery plan had been implemented;
- user access to the Automated Client Certification and Eligibility Network (ACCENT) system and the Resource Access Control Facility (RACF) was not always adequately controlled (discussed in findings 3 and 4 and in a separate letter to management);
- adequate controls were not always in place over ACCENT program changes (discussed in finding 4);
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state's indirect cost allocation plan;
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures for major programs were allocated in compliance with department procedures;
- the department complied with the federal cash management requirements;
- the department complied with the federal reporting requirements;
- the department complied with federal earmarking requirements;
- the department complied with federal maintenance of efforts requirements;
- the department complied with the federal period of availability requirements;
- the department did not always comply with the federal child support noncooperation requirements (discussed in finding 5);
- the department complied with federal participant eligibility requirements except with regard to maintaining supporting documentation as noted in finding 6;
- the department did not always comply with the federal requirements dealing with penalties for refusal to work (discussed in finding 5); and
- the department complied with the federal requirements dealing with parents with children under six.

In addition to the findings, a minor weakness was reported to management in a separate letter.

3. DHS datasets not protected by RACF security software

Finding

Through a manual reconciliation of Department of Human Services (DHS) mainframe-resident datasets and established RACF security profiles, auditors discovered that 997 DHS datasets were outside RACF protection. Datasets are mainframe computer files that contain detailed information needed for various services provided by the department. RACF is the state mainframe security software, which is used to provide an initial level of access security before the user can access department- or agency-level systems. Production environment datasets for the following agency systems were affected: the Automated Client Certification and Eligibility Network of Tennessee (ACCENT), Clearinghouse, Daycare, the Automated Rehabilitation Teacher Tracking System (ARTTS), Blind Services, and DHS Data Warehouse. The datasets could contain detailed information on benefit recipients, other clients, and case histories. Additionally, a small number of the datasets contained RACF security information. These datasets could contain information on specific users' access rights to resources on the state mainframe. When the 997 datasets were either created or renamed by programming staff, they were named in such a way that they fall outside of established RACF security profiles. Security administration staff were not notified of the need for new security profiles; therefore, these datasets currently are not protected by the RACF security software and are potentially vulnerable to compromise.

During the prior-year audit, 315 datasets unprotected by RACF profiles were identified by the auditors and communicated to the DHS RACF Security Administrator. Of these 315, 43 (13.7%) are still unprotected and are included in the count above.

The state's Information Technology Policies require that

All information Technology resources must be appropriately and adequately protected against unauthorized access, modification, destruction or disclosure.

Failure to comply with this standard could result in unintended or illegal access to department data.

Recommendation

DHS management should emphasize to its administrative and programming staff the necessity of notifying security administration personnel when datasets are created or renamed in such a way that does not adhere to existing RACF-protected naming conventions. DHS security administration should periodically perform testwork comparable to that performed by the auditors and should review agency datasets for compliance with existing RACF security profiles. Also, DHS security administration personnel should investigate the list of unprotected datasets provided to them by the Division of State Audit. Applicable datasets should either be renamed to fit the naming convention for existing RACF security profiles, or new RACF security profiles should be established to protect the datasets.

Management's Comment

We concur. As of January 1, 2002, the following have been implemented to correct access control problems, and improve safeguard measures for our production data files:

- System Analysts identified production datasets, and the Security Administrator has created profiles to control access to the datasets.
- Systems development Directors and Analysts have been given access to online reports that show the disk and tape datasets that are not RACF-protected.
- Designated systems analysts will review the report monthly and inform the Security Administrator when production datasets that should be protected appear on the reports.
- Systems development Directors will inform the Security Administrator when new billing codes that are to be used for new production systems and applications are created. The Security Administrator will review and create dataset profiles on RACF as deemed appropriate.

4. Security over computer systems needs improvement

Finding

As noted in the prior audit, the Department of Human Services (DHS) does not have adequate controls over access to the Tennessee Child Support Enforcement System (TCSES), the Automated Client Certification and Eligibility Network (ACCENT), and the Resource Access Control Facility (RACF). TCSES and ACCENT are DHS systems. RACF is the state mainframe security software, which is used to provide an initial level of access security before the user can access department- or agency-level systems. During the review for the fiscal year ended June 30, 2001, the auditors noted that terminated employees' access privileges were not revoked in a prompt manner; and security authorization forms were missing, not properly completed, or did not match the current access privileges of the users. The prior-year audit report contained a finding concerning discrepancies related to security over the agency's computer systems, notably that authorization forms were discovered to be missing, incomplete, or inconsistent with the employees' actual access rights.

Management concurred with the prior audit finding and made the following statement regarding authorization forms:

The Security Administrator has drafted a comprehensive document/form to request, authorize, and grant access to ACCENT, TCSES, and other RACF-protected systems. Currently, multiple forms are being used. The Security Administration Focus Group will review the form prior to its implementation. The new procedures will require the original form to be retained by the Resource Security Administrator and a copy to be maintained by the user's supervisor.

Review during the current year revealed that the Security Focus group had continued work to assess the security environment and to attempt to revise and update the security policies and procedures followed by DHS personnel. Additionally, the consolidated security form mentioned above was implemented. While this Security Focus group is continuing work relating to DHS security issues, additional effort is still needed.

Terminated employees' access privileges were not revoked in a prompt manner.

- Twelve users who had terminated employment possessed active RACF privileges. Five of the users also possessed active ACCENT privileges.
- One TCSES contract user who was no longer working for DHS possessed active RACF privileges and active TCSES ALL staff type, which would give unlimited access to TCSES.

Good security practices require that terminated users' system privileges within all applicable systems be promptly revoked upon their termination. The failure to revoke terminated users' system privileges increases the possibility that sensitive information could be inappropriately modified.

Authorization forms were missing, incomplete, or inconsistent with users' actual access rights.

- Department personnel were unable to locate 6 of 50 (12%) RACF security authorization forms selected for testwork.
- Eleven of 25 ACCENT security authorization forms selected for testwork (44%) were not properly authorized by management.
- Five of 25 ACCENT security authorization forms selected for testwork (20%) did not match the actual access levels possessed by the employees. All five users possessed greater access than originally authorized.

As noted in the prior audit, good security practices require an access authorization form should be completed for each employee using departmental or state application systems. This authorization to be prepared by the employee's management and should specify the employee's access level(s) and the justification for such access. If the access privileges required by an individual legitimately change, a new authorization form should be completed prior to the changing of the access rights by the security administration staff. All of the completed authorization forms should be maintained in a secure location by appropriate security administration personnel. The failure to prepare, collect, and maintain access authorization forms as suggested above 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

As noted in the prior-year audit report, DHS Management should improve security for TCSES, ACCENT, and RACF. Users should be granted the appropriate level of system access based on their job responsibilities. Security authorization forms should be completed by management and maintained. DHS Management should monitor the system security for TCSES, ACCENT, and RACF and take appropriate action if problems are noted.

Additionally, as noted in the prior-year audit report, the Security Focus group should continue efforts to strengthen system security within the agency. Revised or updated policies and procedures should be communicated to agency personnel, and training should be provided as needed.

Management's Comment

We concur. The Department continues to work on the detailed processes that are necessary in order to put in place the larger improvements in our security controls that are more visible in audit reviews. Security Administration Focus Group staff have continued to work toward integrating security management controls with ACCENT so that we can properly authorize and terminate user access to this system. As we move toward department-wide access control procedures, the following outlines our plan to ensure that ACCENT user tables have integrity, and to integrate effective access control procedures for these systems.

A target date of March 2002 has been set to pilot implementation of the new department-wide access control procedures for Family Assistance and Field Operations staff. We will pilot the procedures in one of our eight administrative districts. Under the new procedures:

- All user profiles will be added to RACF and ACCENT (i.e., created and/or changed) by Central Office security staff. All subsequent changes that are made by field staff require the submission of a new form that explains the permanent change in access.
- One form will be used to apply for a User ID and authorize access to ACCENT.
- The authorization form will be sent by designated management staff and approved by Central Office security administration staff based on established policies and procedures. A new authorization form must be sent for all changes, and procedures will be put in place to detect unauthorized changes. All authorization forms will be stored centrally. Upon termination of employment or a change in work groups, users will automatically be terminated on ACCENT.
- A training package is being finalized for all users: managers who are designated as being responsible for requesting access, and security staff who are responsible for granting and terminating access to ACCENT. The training packages will be completed for the pilot in March 2002.

- Plans are to expeditiously implement the new procedures in all of the other program areas after the Family Assistance and Field Operation work groups have completed their work.

Terminated employees' access privileges were not revoked in a prompt manner. Authorization forms were missing, incomplete, or inconsistent with user's actual access rights.

In January 2002, we implemented a new screen in ACCENT to eliminate the need for Family Assistance Field and State office staffs who require multiple ID's on ACCENT to have multiple user profiles on RACF. The SMUG screen also allows security staff to view the ID's that an individual has active in ACCENT, and inactivate them when employment is terminated or the user leaves the work group.

Also, we began generating and using reports that enable security staff to review the ACCENT user data table to review users who have multiple active ID's and detect profiles that allow specific access authorizations that are not consistent with the user's job title. In all instances, the appropriate manager is responsible for ensuring that the authorized profile is consistent with the user's job responsibilities, which may not be consistent with the user's job title. This point will be stressed in the training for designated managers.

In addition, a department-wide memorandum was issued with a checklist of things to be done when an employee leaves the department. The memo was issued so that each supervisor or manager knows all that is expected of them after an employee leaves the department. The termination of computer access is among these items.

5. The department did not always properly administer the Temporary Assistance for Needy Families program

Finding

Temporary Assistance for Needy Families (TANF) is a federal program established for the purpose of providing time-limited assistance to needy families with children. One of the most important facets of this program is to encourage the head of the household to engage in work for pay so that dependence on government benefits can eventually be eliminated. The Department of Human Services (DHS) administers the TANF program in Tennessee under the name Families First. As a result of testwork performed, the following weaknesses were noted:

- a. The Department of Human Services as administrator of the Families First program is required to conduct proper monitoring to ensure compliance with federal program requirements. In order to perform this function, the department contracts with the University of Tennessee to review active Families First cases on a continuing basis to verify that caseworkers are acting in accordance with federal requirements. On a monthly basis, DHS Information Systems personnel

randomly select cases for review by the University of Tennessee. From this random selection, university personnel monitor the performance of caseworkers. Based on testwork performed, 9 of 40 active TANF cases tested (23%) that should have been reviewed by the University of Tennessee had not been reviewed. The reason given by DHS management was that the review program had not been established in District 8 (Shelby County) until July 2001.

- b. Testwork on 40 applicable sample cases revealed that there was no reduction of benefits on any cases in which child support “non-cooperation” letters were issued. *Code of Federal Regulations*, Title 45, Section 264.30(c)(1), requires that recipients of TANF benefits who do not cooperate with child support authorities shall be sanctioned by “deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance. . . .” As a result, total questioned cost was determined to be \$18,491.40. *Code of Federal Regulations*, Title 45, Section 264.31(a)(3), further states that the state may be penalized up to 5% of the State Family Assistance Grant for such failure to substantially comply with this child support related requirement.

Another example of DHS’s failure to reduce benefits for noncompliance with program requirements is shown in the department’s failure to reduce benefits in a case in which the recipient did not comply with work requirements. *Code of Federal Regulations*, Title 45, Section 261.14 (b)(1), requires that if an individual refuses to engage in required work, “The State must, at a minimum, reduce the amount of assistance otherwise payable to the family pro rata with respect to any period during the month in which the individual refuses to work.” *Code of Federal Regulations*, Title 45, Section 261.14(b)(2), also states, “The State may impose a greater reduction, including terminating assistance.” In one of 40 cases tested (2.5%), a recipient was issued monthly Families First benefits of \$226 for five months without participating in the required work component of the personal responsibility plan.

Failure to follow proper quality control procedures and applicable federal regulations could result in undetected federal noncompliance as was shown in the cases described above.

Recommendation

The Commissioner should ensure that active case monitoring reviews are actually performed on all cases selected for review. Also, the Commissioner should ensure that Families First benefits are promptly reduced when required, especially in cases of child support noncooperation and cases of failure to comply with the work requirements.

Management's Comment

a. We do not concur.

At the time the sample was selected (June 2001) Active Case Review (ACR) had not been fully implemented statewide. The finding states that 9 of the 40 sample cases selected by the department for ACR were not reviewed. The 9 cases were all from Shelby County and ACR had not been implemented in Shelby County at that time.

Families First is Tennessee's Temporary Assistance for Needy Families (TANF) program. Based on the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) and the associated regulations issued in April 1999, states are no longer federally mandated to have a quality control program for Title IV-A. This is a change from the Aid to Families with Dependent Children, TANF's predecessor.

However, because of our own need to ensure that case actions are being executed properly and to help prevent fraud in the program, the Department decided to voluntarily implement a quality assurance program to ensure proper use of taxpayer dollars. This process is known as Active Case Review (ACR) and was initiated in early 2000 with a phased in implementation schedule across the state. Effective July 2001, we implemented the quality assurance initiative statewide, including Shelby County, thereby ensuring all sample cases selected are reviewed.

b. We concur.

We agree that improvements can be made to ensure complete compliance with child support non-cooperation.

Tennessee's federal TANF waiver, state law, regulations and policy require that a family be terminated from the program for child support non-cooperation, if good cause does not exist. In Federal FY2001, ninety-one families were denied or sanctioned off from the program due to non-cooperation with child support requirements, without good cause.

Cooperation with child support requirements is fundamental to the Families First Program. Caseworkers work the alerts or respond to phone calls from the child support office if a client is non-cooperative with child support. The child support office is responsible for alerting Family First to the non-cooperation. The Family First caseworker is responsible for determining whether the client had good cause for the non-cooperation. If good cause exists, the non-cooperation alerts may not result in a sanction. However, there are two areas significant in assessing Tennessee's complete compliance with this provision of state and federal law where we will take steps to improve.

First, TCSES, the child support system, has not always issued alerts to the caseworker when a non-cooperation code has been entered. Therefore, there are some alerts that did not reach the Families First caseworker, so no action was taken. This has been identified as a problem within the system, and we will start working to resolve it.

The second issue is a failure of the caseworker to take action when they do receive an alert of non-cooperation from child support. We plan to address this deficiency in two ways. First, a formal memorandum will be issued to the field as a reminder of the importance of child support cooperation and that sanctions for non-cooperation are imposed in the Families First Program. This memorandum will be accompanied by a mandate to field management staff to ensure that each staff understands the child support requirements. Second, effective February 1, 2002, the Active Case Review includes a mandatory question regarding participants' failure to cooperate with the child support requirement. While the staff who review cases do not have access to the alerts that may be generated related to non-cooperation, they do have access to TCSES and are researching all cases reviewed in that system to determine compliance with IV-D requirements. The Active Case Review process incorporates the following questions:

C5. Has participant failed to cooperate with child support requirements?
___ Y ___ N ___ N/A

Comments/Other_____

If Yes, then:

- 1. - retained child support (no good cause exists)
- 2. - AP not named and no documentation to support
- 3. - failed to show for appointments or court dates
- 99 - other (comments required)

C6. Was good cause claimed? ___ Y ___ N ___ N/A

C7. Has good cause been granted correctly? ___ Y ___ N ___ N/A

If NO, then:

- 1 - good cause not verified
- 2 - no good cause exists for non-cooperation
- 3 - not a good cause reason

This finding also found one case out of the 40 reviewed where a client continued to receive benefits without being required to participate in a work activity. This case had a participant who was required to work, though the caseworker, when notified of their non-compliance, did not take timely action to start conciliation and the customer service review process and ultimately, a sanction. While this caseworker failed to take proper action, our Active Case Review statistics indicate that, for the last three months of statistics available, it only occurred in 0.7% of all cases reviewed.

An important function of the ACR process is to review active Families First cases to ensure that caseworkers are correctly and timely referring participants to required work activities in accordance with policy. The latest statistics from ACR indicate that only 1.7% of the cases reviewed had customers who were not in compliance with their Personal Responsibility Plan and needed worker action to be taken.

We have numerous reports from Infopac and data matches to ensure that those participants required to work are in activities and participating for the required amount of hours. These reports are reviewed and monitored by each county office to ensure that no one is staying in the program without complying with the work requirements.

Rebuttal

While it is acknowledged that the department included District 8 (Shelby County) in its Active Case Review in July 2001, cases were selected for review from Shelby County during FY2001 and were not reviewed.

6. The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps

Finding

The Department of Human Services (DHS) does not maintain adequate documentation of the enrollee's information used to determine eligibility for Temporary Assistance for Needy Families (TANF) and Food Stamps.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for TANF and Food Stamps. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor would examine such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

Testwork revealed that the enrollee's application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled in the TANF and Food Stamps programs.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and

Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's social security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Eligibility is determined based upon current monthly income. In addition, the income data DHS receives from the IRS that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

The department relies on quality control sampling to monitor the accuracy of information in ACCENT and to monitor the eligibility determination made. Quality control personnel select samples monthly of persons eligible for Food Stamp benefits. This unit verifies the accuracy of information in ACCENT with outside sources. They also select a sample of denied cases to ensure that the person was appropriately denied. Sample sizes are approved by the federal government, and the samples are selected randomly. However, certain types of cases are not tested. These consist mainly of noncooperation cases where the enrollee either fails or refuses to cooperate or the department is unable to locate the individual. If one of these cases is selected for inclusion in the sample, it is replaced by another case. The case is investigated, but it is not considered in the calculation of the error rate of the sample. Excluding those cases from the error rate of the review could affect the results of the reviews. For example, the error rate of the sample could be higher or lower based upon the results of the noncooperation cases.

The department contracts with the University of Tennessee to review active TANF cases on a continuing basis. On a monthly basis, DHS Information Systems personnel randomly select cases for review by the University of Tennessee. This testwork consists only of determining if the caseworkers properly determined eligibility and benefit amounts based on the information in ACCENT. There is no attempt made to determine the accuracy of the information in ACCENT.

Maintaining documentation provided by the applicant during enrollment would allow the department to test all cases selected. The department should no longer have the problem of being unable to locate the enrollee or obtain cooperation of the enrollee.

Without maintaining the documentation, the department cannot ensure that the information entered into ACCENT is accurate and that enrollees are eligible. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

Recommendation

The Commissioner should ensure the department keeps documentation of the information entered into ACCENT that is used to determine eligibility for TANF and Food Stamps. While it might be possible to reduce the amount of documentation needed with an effective quality control process, documentation should still be maintained for areas of higher risk of ineligibility as determined by the quality control efforts. At best, a quality control system is an after-the-fact determination of eligibility. It is important that the department be able to support eligibility determinations at the time benefits are awarded.

If management wishes to reduce the level of documentation maintained by reliance on a quality control process, that process should adequately cover the entire Food Stamp- and TANF-eligible population, and it should consider any unsupported eligibility determinations to be errors and appropriately project such results to the population.

Management's Comment

We do not concur.

TEN YEARS IN OPERATION

The ACCENT system has been operational since 1992. For ten years two departments of the federal government (the Department of Health and Human Services and the Department of Agriculture) have provided significant federal funds to support Tennessee's eligibility determination process for three programs: Food Stamps, Families First (formerly Aid to Families with Dependent Children or AFDC) and Medicaid. The affected federal agencies are also concerned about the integrity of their programs. By approving the ACCENT system, these agencies recognized that ACCENT's method of eligibility documentation employed met their high standards. They have never expressed any concern regarding a lack of adequate documentation to verify the accuracy of information entered in ACCENT following the certification of the system.

The Department of Human Services is the single state agency for both Food Stamps and Families First. The Bureau of TennCare (Department of Finance and Administration) serves as the single state agency for the Medicaid program. Both federal agencies (Dept. of Health and Human Services and Dept. of Agriculture) concurred in the design and development of the ACCENT system. Without federal approval there would have been no federal funding of either ACCENT's development or program service funding since 1992.

Federal funding for ACCENT has been consistent for both system development and ongoing eligibility processing. The “closeout” letter from the Department of Health and Human Services dated February 9, 1995, is evidence of the approval of both AFDC and Medicaid program participation. This letter represents the final approval and certification of the ACCENT system. USDA was well aware of the “paperless” aspects of the system.

ATTORNEY GENERAL’S OPINION

A memorandum dated December 8, 1992, was received from Tennessee’s Office of the Attorney General providing an informal legal opinion regarding the legal sufficiency of maintaining a one-page paper application and an electronic case file. The opinion was that “the application form and the electronic file satisfies the legal requirements for determining eligibility and would be admissible evidence in legal proceedings regarding such eligibility.” The opinion further states that “[t]here are no federal requirements specifying that the Department of Human Services maintain written documentation other than the signed application form.”

QUALITY CONTROL SYSTEM

Traditionally, as part of the funding agreement and program oversight, the federal agencies require a Quality Control system to review a sample of case actions. Currently only the Food Stamp program requires that a complete Quality Control review be conducted as part of the federal/state funding agreement. For the Medicaid program, the state and the federal agency mutually target a portion of the Medicaid population for a Quality Control review with a corrective action plan as the goal for improving case quality. For both the Food Stamp and Medicaid programs, there is a random case selection sample each month. This sample is made from the list of all Food Stamps households or all Medicaid cases with children (current Medicaid QC plan) as applicable. Please note that with the Food Stamp program there is a federal re-review using a sub-sample of the state QC review cases. The Food Stamp federal review is conducted electronically by reading the ACCENT record and the QC review packet.

Based on a sample of Food Stamp cases, the Quality Control system ensures that the electronic file includes the required information for eligibility determinations and verifies the accuracy of that information. Further, the Quality Control system serves as a deterrent to creating fraudulent cases/documentation. Contrary to what is stated in the finding, the Quality Control reviewer must independently verify all points of eligibility. The Quality Control process ensures that the verification sources (primary, secondary, or others) used by the eligibility counselor are appropriate. The eligibility counselor must rely on a variety of sources to correctly determine eligibility. Depending on the source (bank statement, pay stub, birth certificate, self-declaration), the eligibility counselor must obtain further verification. While it is true that there are numerous online matches with a variety of agencies (Social Security and Department of Labor), these sources only serve as indicators and additional verifications must be pursued. Quality Control oversight provides on-going assessment of worker skill and knowledge in establishing financial eligibility and verifies that the information entered into ACCENT is accurate.

The department conducts the QC review of a random sample of Food Stamp cases in accordance with federal guidelines contained in 7 CFR 275. Any deviations from the federal guidelines may cause financial sanctions to the department.

The federal policy regarding the disposition of cases dropped from the QC sample applies to states with paper files, as well as to states without paper files. Every state, regardless of its system of eligibility determination, drops cases from the sample for the same reasons Tennessee drops cases. None of the dropped cases are used to calculate an error rate. If the QC reviewer is unable to complete the review for any number of valid reasons, it is inappropriate to show the case as being in error or as being correct.

The QC reviewer examines eligibility in a particular month, not necessarily in the month of application. Therefore, no matter what documentation is or is not on file, all points of eligibility must be re-verified by the QC reviewer independent of the initial determination. We do not rely, nor have we ever relied, on the documentation of the county office provided at the time of the eligibility interview, whether it is paper or electronic.

The audit recommendation states that the QC process should include TANF. Due to the integrated nature of the ACCENT system (overlapping of program eligibility), both the Food Stamp and Medicaid QC processes include the TANF program. The Medicaid QC covers all assistance groups with children except those that are Families First related and 80% of the Families First cases are subject to the Food Stamp QC sample. The common eligibility requirements for all 3 programs are subject to review in the QC process. Therefore, the QC review of Food Stamps and Medicaid cover the Families First program as well.

The department has also elected to adopt our own quality assurance program called, "Active Case Review" (ACR) for Families First. The ACR appropriately reflects the programmatic goals of not only process (i.e., eligibility determination), but also outcomes (i.e., case management), as outcomes are the primary focus of the program. While the ACR does not contact the client to re-verify the information on ACCENT, all of the data matches (with the exception of the IRS match due to confidentiality issue) are reviewed and any discrepancies noted are resolved. Data matches are considered independent verification and are used to confirm the accuracy of the information in ACCENT.

ADMINISTRATIVE REVIEW PROCESS

Another federal/state requirement is the right of all program applicants/recipients to due process through a fair hearing. Fair hearings are held to review challenged case actions. Since the implementation of ACCENT, there has been no challenge of the use of an electronic file in eligibility determinations. Please refer to *Tennessee Court Rules Annotated*, Rules of Evidence, Article VIII, Rule 803 (6) and (8).

Rebuttal

Based on discussions with the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services, we believe that documentation is necessary and required by Office of Management and Budget, Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

CHILD SUPPORT ENFORCEMENT

The objectives of this program are to enforce support obligations owed by noncustodial parents, locate absent parents, establish paternity, and obtain child and spousal support.

Our objectives in auditing the Child Support Enforcement program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied;
- computer resources were planned, managed, and used effectively;
- an adequate business recovery plan had been implemented;
- user access to the Tennessee Child Support Enforcement System (TCSES) and the Resource Access Control Facility (RACF) was adequately controlled;
- adequate controls were in place over TCSES program changes;
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state's indirect cost allocation plan;
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures for major programs were allocated in compliance with department procedures;
- the department complied with federal reporting requirements;
- the department complied with the federal cash management requirements;
- the department complied with federal requirements dealing with the establishment of paternity;
- the department complied with federal requirements dealing with medical support obligations;
- the department complied with federal requirements dealing with interstate cases; and

- the department complied with federal requirements dealing with tax intercepts.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we interviewed key department personnel to gain an understanding of the department's procedures and controls over the TCSES system. We obtained and reviewed the department's three-year information systems plan and other departmental policies. We obtained datasets of the TCSES and RACF security tables and performed computer-assisted analytical procedures concerning the levels of access provided to certain users. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected one quarter's reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected a nonstatistical sample of child support cases and tested them for compliance with federal regulations related to establishment of paternity;
- selected a nonstatistical sample of child support cases and tested them for compliance with federal regulations related to enforcement of child support obligations;
- selected a nonstatistical sample of child support cases and tested them for compliance with federal regulations related to medical support obligations;
- selected a nonstatistical sample of interstate child support cases and tested them for compliance with all applicable federal regulations; and
- selected a nonstatistical sample of child support cases with a federal offset and tested them for compliance with all applicable federal regulations.

As a result of the testwork, we determined that

- the department had controls in place which ensure that all program requirements are satisfied;
- computer resources were not always planned, managed, and used effectively (discussed in finding 4);
- an adequate business recovery plan had been implemented with minor exceptions;
- user access to the Tennessee Child Support Enforcement System (TCSES) and the Resource Access Control Facility (RACF) was not always adequately controlled (discussed in findings 3, 4, and 7 and in a separate letter to management);
- adequate controls were not always in place over TCSES program changes (discussed in finding 4 and in a separate letter to management);
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state's indirect cost allocation plan;
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures for major programs were allocated in compliance with department procedures;
- the department did not always comply with federal reporting requirements (discussed in finding 8);
- the department complied with the federal cash management requirements;
- the department did not always comply with federal requirements dealing with the establishment of paternity (discussed in finding 8);
- the department did not always comply with federal requirements dealing medical support obligations (discussed in finding 8);
- the department did not always comply with federal requirements dealing with interstate cases (discussed in finding 8); and
- the department complied with federal requirements dealing with tax intercept procedures.

In addition to the findings, other minor weaknesses were reported to management in a separate letter.

7. The agency needs to improve its monitoring of Child Support Collections programmers' conflicts of interest

Finding

Contract employees involved in Child Support Collections programming were discovered to have interests prohibited by the contract between the Department of Human Services (DHS) and Accenture, the contract firm engaged by the department to provide programming maintenance for the Tennessee Child Support Enforcement System (TCSES). Two Accenture employees were discovered to be noncustodial parents currently paying child support. One Accenture employee was discovered to be a custodial parent currently receiving child support payments. A fourth Accenture employee was in the process of petitioning the court to establish paternity.

The one Accenture employee discovered to be a custodial parent currently receiving child support possessed full update (ALL staff type) access rights to TCSES. With such rights, this Accenture employee has the ability to make unauthorized changes to her own open case. The other three Accenture employees have access to TCSES computer programs. With such access, these Accenture employees have the ability to make unauthorized changes for their benefit.

The contract between the Department of Human Services and Accenture requires the following:

The Contractor covenants that it presently has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of its services hereunder. The Contractor further covenants that in the performance of the Contract no person having any such known interests shall be employed.

Furthermore, the contract grants the following ability to the Department of Human Services:

The State reserves the right to evaluate all personnel proposed to perform services under this Contract. The Contractor shall provide, at the State's request and in a timely manner, resumes, contact references, and/or any other supporting documentation necessary to allow the State to evaluate the individuals' qualifications.

While the primary responsibility for ensuring that contract employees are free from conflicts of interest lies with Accenture, the Department of Human Services did have the ability to do its own monitoring. However, the department does not have policies or a monitoring program in place to do so.

Recommendation

The Department of Human Services should ensure that Accenture complies with the contract terms relating to conflicts of interest by resolving all instances of conflicts identified during this audit.

The Department of Human Services should also consider developing policies and a monitoring program to ensure that contract employees are free from conflicts of interest.

Management's Comment

We concur. We will request Internal Audit's assistance in developing a conflict of interest policy and monitoring plan and implementing the monitoring plan for TCSES programmers.

8. The department did not comply with child support enforcement procedures

Finding

As noted in the prior seven audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations. Management concurred with the prior audit finding and addressed specific ways in which it was going to resolve the prior audit finding. Some of the weaknesses have been resolved; however, the following weaknesses still exist.

In a review of active child support cases using TCSES (Tennessee Child Support Enforcement System), the following weaknesses were noted:

- a. Four of the 25 cases tested (16%) did not comply with the establishment of paternity and support obligation procedures. Two of the cases tested (8%) contained case diary entries that indicated that the custodial parent was not cooperating with the department. There was no documentation that the caseworkers attempted to resolve these matters. *Code of Federal Regulations*, Title 45, Section 303.3(b), states, "For all cases referred to the IV-D agency or applying for services . . . , the IV-D agency must attempt to locate all non-custodial parents." If the custodial parent does not provide information concerning a noncustodial parent, this could hinder location efforts by the department. The other two cases (8%) did not have documentation of efforts to serve the noncustodial parent with an order to appear in court for the purpose of establishing paternity. *Code of Federal Regulations*, Title 45, Section 303.3(c), states, "The State must establish guidelines defining diligent efforts to serve process. These guidelines must include periodically repeating service of process

attempts in cases in which previous attempts to serve process have failed, but adequate identifying and other information exists to attempt service of process.”

- b. Five of the 25 cases tested (20%) did not comply with medical support procedures regulations. Three cases had medical insurance information in the case file that was not documented in TCSES. The *Code of Federal Regulations*, Title 45, Section 307.10(b)(14)(ii), states that the state’s computerized support enforcement system must “use automated processes to assist the State in providing automated maintenance of case records for purposes of the management and tracking requirements.” Also, in one case, the court order did not address medical support. In the second case, although the initial order addressed medical support, the subsequent order was not updated with medical support information. *Code of Federal Regulations*, Title 45, part 303.31(b)(7), states, “If health insurance is available to the absent parent at reasonable cost and has not been obtained at the time the order is entered, [the IV-D agency shall] take steps to enforce the health insurance coverage required by the support order.” In its response to the prior audit finding, management stated that it would continue to address the importance of enforcing medical support through quarterly training sessions, memorandums, etc.
- c. In 2 of the 25 interstate cases tested (8%), the department did not comply with federally prescribed time frames for sending additional data. TCSES generates a mail message for caseworkers when another state requests information on a noncustodial parent. The caseworker has 30 days to respond to or to send any additional information to the requesting state. *Code of Federal Regulations*, Title 45, part 303.7(b)(4), states, “[the state must] Provide the IV-D agency or central registry in the responding State with any requested additional information or notify the responding State when the information will be provided within 30 days of receipt of the request for information.” The caseworkers did not respond to the messages until September 28, 2001, although the due dates were August 21, 2000, and August 22, 2000, respectively.

Failure to enforce child support and medical support orders, to properly enter all information in TCSES, and to provide necessary information to responding states within federally prescribed time frames may deprive caretakers and dependent children of needed financial support and may result in the state’s Child Support Enforcement Program not being reimbursed for program expenditures.

Also, as noted in the prior audit report, the amount of undistributed child support collections reported in TCSES does not reconcile to the State of Tennessee Accounting and Reporting System (STARS). The Office of Inspector General cited this in its report entitled *Review of Selected Aspects of the Tennessee Child Support Disbursement Unit*, in July 2000. TCSES is maintained by the maintenance contractor, Accenture, formerly Andersen Consulting. However, due to problems with TCSES and Accenture personnel, data obtained from TCSES have been found to be inaccurate. In the prior audit report, management stated that the reconciliation is in progress with the assistance of a task force and a staff member.

Recommendation

The Director of Child Support should ensure that attempts are made to enforce the necessary support obligations. Further, the Director should ensure that support orders are reviewed, that information is entered in TCSES in a timely manner, and that information is provided to responding states within federal time frames. The Commissioner should ensure that the efforts of the Director of Child Support are frequently monitored to ensure compliance with child support enforcement procedures.

The Commissioner should ensure that the amount of undistributed child support collections reported in TCSES is reconciled to STARS by the projected deadline.

Management's Comment

We concur. This finding notes that the department did not comply with child support enforcement procedures in the prior seven audit reports. The department strives for 100% compliance in all program activities, not just child support enforcement. The likelihood exists that the goal of 100% compliance in all child support enforcement activities will not be consistently met. However, the department achieved an 80% or higher compliance rate regarding enforcement activity mentioned in the finding. While leaving room for improvement, this is a significant accomplishment.

- a. The department will emphasize the child support policy pertaining to non-cooperation of the custodial parent and policy regarding service of process at quarterly Administrator meetings. Technical Assistance Reviews conducted by State staff of local enforcement activities will review these areas for compliance and require appropriate corrective action. Training material currently being developed and tentatively scheduled for completion in March 2002 will address policy pertaining to these topics.
- b. The department recently emphasized the importance of medical support enforcement at the Administrator's meeting on November 27, 2001. Medical enforcement activities will continue to be emphasized at Administrator's meetings. Technical Assistance Reviews by State staff review local enforcement office operations, which includes medical enforcement. Corrective action plans are required as needed and a follow up review is performed. Training material currently being developed and tentatively scheduled for completion in March 2002, will address policy pertinent to medical support enforcement activities.
- c. The department will emphasize the child support policy pertaining to interstate cases, in general and time frames specifically, during Administrator meetings and future training sessions. Training material currently being developed and tentatively scheduled for completion in March 2002 will address policy pertinent to interstate activities.

The audit recommends that “The Commissioner should ensure that the amount of undistributed child support collections reported in TCSES is reconciled to STARS by the projected deadline.” As stated in a prior audit response, there is a system’s task designated to this project. This task was scheduled to be completed in early 2002 but was delayed due to other system projects, which the department had to assign higher priorities. The task on undistributed collections reconciliation is scheduled to start up again in April 2002 and be completed in September 2002. In addition to this task, a unit continues work in the area of undistributed collections and on the reconciliation process.

CHILD CARE AND DEVELOPMENT BLOCK GRANT, CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND DEVELOPMENT FUND

The Child Care and Development Fund provides funds to increase the availability, affordability, and quality of child care services for low-income families where the parents are working or attending training or educational programs. The mandatory and matching funds are two distinct funding sources.

Our objective in auditing the Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied;
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state’s indirect cost allocation plan;
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures were being allocated in compliance with department procedures;
- the department complied with the federal requirements dealing with eligibility;
- the department complied with the federal cash management requirements;
- the department complied with federal reporting requirements, including TANF transfers;
- the department complied with federal requirements concerning administrative costs;
- the department complied with federal requirements dealing with the obligation of mandatory and discretionary funds;
- the department complied with federal matching requirements;

- the department complied with federal maintenance of effort requirements;
- the department complied with federal earmarking requirements;
- the department complied with federal requirements regarding subrecipient monitoring; and
- the department complied with its policies and procedures related to the inspection of licensed child care providers.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk.

We determined that most program participants had their eligibility determined by subrecipients. Our testwork on these participants is discussed further in the subrecipient monitoring testwork. The department determined participant eligibility only in Shelby County. We selected a nonstatistical sample of these participants and determined if the participants were eligible. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- selected reports and determined if the information on the reports could be traced or reconciled to adequate supporting documentation;
- tested reports for compliance with federal requirements dealing with TANF transfers, administrative costs, obligation of mandatory and discretionary funds, matching, maintenance of effort, and earmarking;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133;

- reviewed the monitoring working papers for all child care brokers monitored during the fiscal year and tested them to determine if monitoring requirements were met;
- obtained a list of subrecipients that had received findings and questioned costs and determined if the department had performed adequate follow-up; and
- selected a nonstatistical sample of licensed child care providers and determined if each provider received the proper number of announced and unannounced inspections during the provider's licensing year.

As a result of the testwork, we concluded that

- the department had controls in place which ensured that all program requirements were satisfied;
- expenditures charged to the program were in compliance with all federal requirements;
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers;
- the department complied with the state's indirect cost allocation plan;
- the internal controls over payroll allocation were adequate to ensure compliance with federal requirements;
- payroll expenditures were being allocated in compliance with department procedures;
- the department complied with the federal requirements dealing with eligibility;
- the department complied with the federal cash management requirements;
- the department complied with federal reporting requirements, including TANF transfers;
- the department complied with federal requirements concerning administrative costs;
- the department complied with federal requirements dealing with the obligation of mandatory and discretionary funds;
- the department complied with federal matching requirements;
- the department complied with federal maintenance of effort requirements;
- the department complied with federal earmarking requirements;
- the department complied with federal and state requirements dealing with subrecipient monitoring, except as noted in finding 10 and on page 57; and
- the department did not always comply with its policies and procedures dealing with the inspection of licensed child care providers (discussed in finding 9).

9. Unannounced inspections of licensed child care providers were not always performed, and complaint investigations were not always documented

Finding

As noted in the prior two audit reports, the department did not always comply with state licensing requirements concerning inspections of licensed child care providers. Management concurred with the prior audit finding and stated that it had implemented procedures which would result in all agency files and licensing counselor caseloads being audited regularly to ensure that the required number of visits are conducted and the visits are appropriately scheduled throughout the licensing year. Also, management stated that staff had received additional training on the Tennessee Child Care Management System (TCCMS); and the supervisory staff had added new policies and procedures to improve the timely and proper entry of data into TCCMS. However, testwork performed on the TCCMS system revealed that during fiscal year 2001, 5 of 35 licensed child care providers tested (14%) did not have the required number of unannounced inspections. Testwork revealed that licensed child care providers received two to five unannounced inspections during their licensing year.

The Child Care and Development Fund Plan, Section 6.6, dated June 2000, requires that “the Department of Human Services makes a minimum of six unannounced visits during the licensing year of each licensed child care provider.” Section 71-3-508(a), *Tennessee Code Annotated*, states, “It is the duty of the department, through its duly authorized agents, to inspect at regular intervals, without previous notice, all child care agencies or suspected child care agencies . . . within the state.”

In addition, TCCMS was reviewed to determine if the department had documented in the system its investigation of nine hotline complaint calls received by the Comptroller’s office during fiscal year 2001 relating to child care providers. As of November 28, 2001, there were no notations in TCCMS on seven of the nine child care providers (78%) to indicate that a complaint investigation had been made. One of the two complaints that was reported in TCCMS was recorded in the narrative screen rather than the complaint screen. Section 71-3-509(a), *Tennessee Code Annotated*, states, “If any complaint is made to the department concerning any alleged violations of the laws and regulations governing a child care agency, the department shall investigate such complaints and shall take action as it deems necessary to protect the children in the care of such agency.”

The purpose of unannounced inspections is to ensure that minimum standards are being met and to ensure the quality of care provided by the child care providers. If inspections are not performed in a timely manner, child care providers could jeopardize the safety and well-being of the children entrusted to their care. If hotline calls are not properly documented, serious violations of health or safety could continue to exist for an extended period of time, and the public’s confidence in the hotline network and the department’s follow-up on complaints could be put in jeopardy.

Recommendation

The Commissioner should ensure that at least six unannounced visits are performed annually on all providers. In addition, the Commissioner should establish policies which ensure that all hotline calls are appropriately documented in TCCMS.

Management's Comment

We concur in part.

We concur with the concern that the required numbers of unannounced inspections of licensed child care providers were not always performed. However, it should be noted that during the time frame covered by this audit, the department increased the performance measure for unannounced inspections from two unannounced inspections to six unannounced inspections. While it is true that five out of 35 agencies tested did not receive the required number of unannounced inspections, three of those agencies received five unannounced inspections and only one agency's inspection record was found to be seriously deficient. While the department has made great strides in improving the rate of child care agency inspections, we acknowledge that, by setting the performance measure higher than other states, we have experienced some difficulty completing the six unannounced inspections for all licensed agencies due to vacancies in our licensing counselor positions. The department will strive to overcome these barriers and will continue to closely audit counselor inspection performance.

We concur in part regarding complaint investigations that were not always documented. Of the 9 Comptroller's hotline complaint calls reviewed by the auditors, two child care licensing complaints were found to be documented in the TN Child Care Management System (TCCMS). Of the seven remaining hotline calls, three were Child and Adult Care Food Program (CACFP) complaints that cannot be documented in TCCMS as the CACFP is not a child care program, and one was a Child Care Certificate Program (CCCP) complaint that was not documented in TCCMS as there are no CCCP complaint screens in which to document hotline complaints. The remaining three hotline complaint calls were licensing complaints and were not appropriately documented in the TCCMS licensing complaint screens. It should be noted that all of the questioned complaint calls resulted in investigation outcome letters being sent as required to the Comptroller's office. Additionally, paper documentation, in the form of file notations or e-mail correspondence, was available for the referenced CACFP and CCCP complaint calls.

The department acknowledges that Comptroller hotline calls need to be documented; however, it is not feasible or appropriate for non-child care program calls to be documented in TCCMS. The CACFP hotline calls will be documented in the CACFP case file. Regarding the CCCP hotline calls, as TCCMS contains no CCCP complaint screens, these complaints will be documented in the TCCMS parent history screens or the provider history screens depending on the nature of the complaint. The Comptroller hotline complaint calls regarding licensing will be given to the DHS Licensing Complaint Hotline staff for entry into TCCMS. The complaint will then be assigned to the appropriate Licensing Counselor for investigation. The results of the

investigation will be monitored and documented in TCCMS by the appropriate Field Supervisor and by the initiating Licensing Complaint staff person.

LOW-INCOME HOME ENERGY ASSISTANCE

The objectives of the Low-Income Home Energy Assistance program are to help low-income people meet the costs of home energy, defined as heating and cooling of residences, and to increase their energy self-sufficiency and reduce their vulnerability resulting from energy needs.

Our objectives in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures were being allocated in compliance with department procedures,
- the department complied with federal earmarking requirements,
- the department complied with federal requirements dealing with period of availability,
- the department complied with federal reporting requirements,
- the department complied with all federal regulations related to cash management,
- the department complied with all federal regulations dealing with participant eligibility, and
- the department complied with federal and state requirements dealing with subrecipient monitoring.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected reports and determined if the department complied with all federal requirements related to earmarking and period of availability;
- selected reports and determined if the information in the reports could be traced or reconciled to adequate supporting documentation;
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash agreement;
- determined if all subrecipients had a risk assessment and that all high-risk subrecipients were monitored during the audit period;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133;
- reviewed the monitoring working papers for all subrecipients monitored during the fiscal year and tested them to determine if monitoring requirements were met; and
- obtained a list of subrecipients that had received findings and questioned costs and determined if the department had performed adequate follow-up.

As a result of the testwork performed, we determined that

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures for major programs were allocated in compliance with department procedures,

- the department complied with federal earmarking requirements,
- the department complied with federal requirements dealing with period of availability,
- the department complied with federal reporting requirements,
- the department complied with all federal regulations related to cash management, and
- the department complied with federal and state requirements dealing with subrecipient monitoring, except as noted in finding 10 and on page 57.

SOCIAL SERVICES BLOCK GRANT

Social Service Block Grant funds may be used to provide services in one or more of the following areas: (1) to prevent, reduce, or eliminate dependency; (2) to prevent neglect, abuse, or exploitation, of children and adults unable to protect themselves; (3) to preserve, rehabilitate, or reunite families; (4) to prevent or reduce institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate.

Our objective in auditing the Social Services Block Grant focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures were allocated in compliance with department procedures,
- the department complied with all federal regulations related to cash management,
- the department complied with federal earmarking requirements,
- the department complied with federal period of availability requirements, and
- the department complied with federal and state requirements regarding subrecipient monitoring.

We reviewed OMB Circular A-133 to gain an understanding of the program's requirements. We interviewed key department personnel to gain an understanding of the department's procedures. We documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and

reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations for significant variances were obtained and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement;
- determined whether Temporary Assistance for Needy Families funds were transferred into the correct part of the program;
- reviewed the accounting records to determine if the department had complied with the period of availability requirements;
- determined whether all high-risk subrecipients were monitored during the audit period;
- reviewed the monitoring guide used by the Department of Finance and Administration to monitor the subrecipients and determined if the guide satisfied the requirements of OMB Circular A-133;
- performed tests on the monitoring working papers of all subrecipients monitored during the audit period and tested them to determine if monitoring requirements were met; and
- obtained a list of subrecipients that had received findings and questioned costs and determined if the department had performed adequate follow-up.

As a result of the testwork, we concluded that

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,

- the department complied with the state’s indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures were allocated in compliance with department procedures,
- the department complied with all federal regulations related to cash management,
- the department complied with federal earmarking requirements,
- the department complied with federal period of availability requirements, and
- the department complied with federal and state requirements dealing with subrecipient monitoring, except as noted in finding 10 and on page 57.

SOCIAL SECURITY–DISABILITY INSURANCE

The objective of the Social Security – Disability Insurance program is to provide benefits to disabled wage earners and their families.

Our objective in auditing the program focused on determining whether

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- controls were in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state’s indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures were allocated in compliance with departmental procedures,
- the department complied with federal regulations related to cash management, and
- the department complied with federal reporting requirements.

We reviewed OMB Circular A-133 to gain an understanding of the program’s requirements. We interviewed key department personnel to gain an understanding of the department’s procedures. We documented, tested, and assessed management’s internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management’s internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; performed walk-throughs and tests of controls; and assessed risk. Also, we

- selected a nonstatistical sample of expenditures charged to this program and tested them for debarment and suspension, allowable activities, and allowable costs;
- selected a nonstatistical sample of expenditures charged to indirect cost centers and determined if the expenditures were allowable for federal programs;
- determined if allocations of expenditures, including payroll, complied with the department's cost allocation plan;
- obtained a list of the current year's payroll expenditures and compared these expenditures with the prior year's expenditures (explanations were obtained for significant variances and verified);
- selected a nonstatistical sample of federal drawdowns and tested them for compliance with the State-Treasury cash management agreement; and
- selected reports and determined if the information in the reports could be traced and/or reconciled to the department's accounting records.

As a result of the testwork performed, we determined that

- the department had controls in place which ensured that all program requirements were satisfied,
- expenditures charged to the program were in compliance with all federal requirements,
- the department had controls in place which ensured that only allowable costs were charged to indirect cost centers,
- the department complied with the state's indirect cost allocation plan,
- internal controls over payroll allocation were adequate to ensure compliance with federal requirements,
- payroll expenditures were allocated in compliance with department procedures,
- the department complied with all federal regulations related to cash management, and
- the department complied with federal reporting requirements.

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. Based on the testwork performed, we determined overall that the Schedule of Expenditures of Federal Awards appeared to be properly prepared and adequately supported; however, minor weaknesses were reported to management in a separate letter.

SUBRECIPIENT MONITORING

The Department of Human Services is responsible for ensuring that its subrecipients receive a single audit if they receive at least \$300,000 in grant funds during a fiscal year. We selected a nonstatistical sample of subrecipients that had received at least \$300,000 from the department during the audit period and determined if the department had obtained a copy of the subrecipient's single audit report for the subrecipient's previous fiscal year. We found that the department had not always done this as discussed in finding 10.

10. The department does not have procedures in place to ensure that subrecipients file a single audit report

Finding

The Department of Human Services (DHS) has not adequately maintained a listing of subrecipients who are required to file a single audit report. Also, there are inadequate procedures in place to ensure that program directors receive these reports, review them for compliance with federal requirements, and follow up with the subrecipients to ensure that they take prompt corrective action on any findings.

Testwork on 25 organizations that received at least \$300,000 in funding from DHS disclosed that 7 of 13 who qualified as subrecipients (54%) had not submitted a single audit report to the department for fiscal year 2000. Of the seven subrecipients, there were no reports on file at DHS for four; a single audit report was on file for fiscal year 1999 for two; and one had submitted a financial statement audit report, not a single audit report.

Although DHS receives notification from the Comptroller of the Treasury, Division of Municipal Audit, of any subrecipient that should have a single audit, the department is ultimately responsible for ensuring that the subrecipient receives a single audit report. The department should ensure that it receives and reviews the report to determine the subrecipient's compliance with federal requirements. If the report contains findings, the department should ensure that the subrecipient takes prompt corrective action.

OMB Circular A-133 requires the department 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 the 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 establish procedures which ensure that the list of subrecipients that require a single audit is maintained. These procedures should ensure that the reports are received in a timely manner, and program directors should ensure that subrecipients have taken prompt corrective action on all findings.

Management's Comment

We concur. Because of staff shortages in certain sections of fiscal services, the tracking system for subrecipient audits has not been updated on a regular basis. We have also not had the staff to ensure that audit reports are received and that findings (if any) are resolved. We are currently interviewing applicants to fill a position that would be responsible for updating and monitoring the tracking system. We plan to update the database to include all of our current subrecipients and to contact the subrecipients to have them submit audit reports to our Internal Audit Section. Internal Audit will be responsible for distributing the reports to the appropriate fiscal and program staff. The audit staff will be given access to the database to monitor the information entered into the tracking system. Fiscal and program staff will be responsible for maintaining the database, reviewing the reports to ensure compliance with federal requirements, and following up on the corrective actions on any findings. The tracking system should be updated by June 30, 2002. We will also ensure that the audit report submitted by subrecipients is a single audit report.

CONTINGENT REVENUE

The objectives of our review of contingent revenue were to determine whether

- controls over the proper recording of contingent revenue transactions were adequate, and
- the balances in the contingent revenue accounts are fairly stated at June 30, 2001.

To accomplish these objectives, we

- obtained from the State of Tennessee Accounting and Reporting System (STARS) a listing as of June 30, 2001, of all contingent revenue subsidiary ledger accounts;
- reviewed with management the purpose of each account and the controls which ensure that entries are properly reviewed and approved;
- obtained the balance of the contingent revenue accounts and calculated the thresholds for materiality, tolerable misstatement, and individually significant transactions; and
- obtained a listing of individually significant transactions and performed testwork to determine if the transaction was properly documented and approved, the proper

transaction code was used, the amount of the transaction was proper, and the transaction was charged to the proper fiscal year.

As a result of testwork, we concluded that

- the controls over the proper recording of contingent revenue transactions are adequate, and
- the balances in the contingent revenue accounts appear fairly stated in all material aspects at June 30, 2001.

INTERNAL AUDIT

Our objectives in reviewing the Internal Audit Division were to determine whether

- the division had adequate independence from other divisions in the department,
- the division's written policies and procedures were adequate,
- the staff's education and experience satisfied the state's requirements,
- the division submitted its annual audit plan for the fiscal year ended June 30, 2002, to the Comptroller's Office no later than July 6, 2001, and
- the division's performance satisfied the requirements of its policies and procedures and the plan that it submitted to the Comptroller of the Treasury.

To accomplish these objectives, we

- interviewed key personnel,
- reviewed the department's organization chart to determine if the Internal Audit Division had sufficient independence,
- reviewed the department's policies and procedures manual to determine if it was adequate,
- obtained the personnel files of the internal auditors and compared their education and experience to the state Department of Personnel's requirements,
- obtained a copy of Internal Audit's annual plan and determined if it had been submitted in a timely manner,
- compared the list of reports issued during the audit period to the annual plan for the audit period to determine if the division's performance satisfied the requirements of its policies and procedures manual and the annual plan, and
- selected five reports that had been issued during the audit period and determined if the working papers were adequate.

As a result of our testwork, we concluded that

- the Internal Audit Division had adequate independence from other divisions in the department,
- the division's written policies and procedures were adequate,
- the staff's education and experience satisfied the state's requirements, and
- the division submitted its annual audit plan for the fiscal year ended June 30, 2002, to the Comptroller of the Treasury in a timely manner.

A minor weakness was reported to management in a separate letter concerning the Internal Audit Division's performance with regard to satisfying the requirements of its policies and procedures and the plan that it submitted to the Comptroller of the Treasury.

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.

Our objectives were to determine whether the department's June 30, 2001, responsibility letter was filed in compliance with Section 9-18-104, *Tennessee Code Annotated*, and corrective actions have been implemented for weaknesses identified in the report.

We reviewed the department's June 30, 2001, responsibility letter and determined that the department had filed its responsibility letter by the required deadline. No weaknesses were identified in the report.

Minor weaknesses were reported to management in a separate letter.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22, "SUBRECIPIENT MONITORING"

Department of Finance and Administration Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. Our objectives focused on determining whether

- the department submitted the required monitoring plans and monitoring reports to the Department of Finance and Administration in a timely manner,

- the department identified its subrecipients and included them in the monitoring plans, and
- the department assessed the risk of each subrecipient in accordance with the guidelines established by the Department of Finance and Administration.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 22. We reviewed the reports sent to the Department of Finance and Administration. We obtained a listing of all entities that had received funds classified as grants from the department and compared this listing to the list sent by the department to the Department of Finance and Administration. As a result of our testwork, we concluded that

- the department submitted the required monitoring plans and monitoring reports to the Department of Finance and Administration in a timely manner,
- the department identified its subrecipients and included them in the monitoring plans, and
- the department assessed the risk of each subrecipient in accordance with the guidelines established by the Department of Finance and Administration.

Minor weaknesses were reported to management in a separate letter.

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 Human Services filed its compliance report and implementation plan on June 28, 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.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, 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 compliance report and implementation plan were filed on October 1, 2001, with the Department of Audit.

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.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Human Services' divisions and allotment codes:

345.01	Division of Administration
345.13	Child Support
345.16	Field Operations
345.17	County Rentals
345.23	Temporary Cash Assistance
345.25	Food Stamp Coupons
345.30	Family Assistance Services
345.35	Disaster Relief Grants
345.49	Community Services
345.50	Child Care Facilities Loan Fund
345.70	Vocational Rehabilitation
345.71	Disability Determination