

**Department of Commerce and Insurance**

**For the Years Ended  
June 30, 2001, and June 30, 2000**

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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

October 29, 2002

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

The Honorable Anne B. Pope, Commissioner  
Department of Commerce and Insurance  
Fifth Floor, Davy Crockett Tower  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Commerce and Insurance for the years ended June 30, 2001, and June 30, 2000.

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

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
02/039



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

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March 12, 2002

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 Commerce and Insurance for the years ended June 30, 2001, and June 30, 2000.

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 Commerce and Insurance's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Commerce and Insurance 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 Commerce and Insurance's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/cj

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Commerce and Insurance**  
For the Years Ended June 30, 2001, and June 30, 2000

## AUDIT SCOPE

We have audited the Department of Commerce and Insurance for the period July 1, 1999, 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 of Modular Housing, Manufactured Housing, Arson, Consumer Affairs, Securities, Insurance, the Boxing and Racing Board, the Collection Service Board, the Cosmetology Board, the Land Surveyors Board, the Alarm Systems Contractors Board, the Emergency Communications Board, Disbursements, Payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

## AUDIT FINDINGS

### **Documentation of Manufactured Housing Inspections Is Insufficient\***

The Codes Enforcement section of the Division of Fire Prevention is not enforcing federal and state policies and procedures for documentation of manufactured housing inspections (page 5).

### **The Consumer Affairs Division Should Improve Compliance With Policies and Procedures\***

The division is not sending letters to respondents timely or properly documenting closed complaints as specified in its policies and procedures (page 10).

\* This finding is repeated from the prior audit.

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

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**Audit Report**  
**Department of Commerce and Insurance**  
**For the Years Ended June 30, 2001, and June 30, 2000**

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**Department of Commerce and Insurance**  
**For the Years Ended June 30, 2001, and June 30, 2000**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

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

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

**BACKGROUND**

The Department of Commerce and Insurance was established to protect the public health and safety of Tennessee’s citizens. The mission of the department is to provide the leadership and support necessary to protect the public health and safety by

- maintaining public confidence in the integrity of the consumer and financial service industries and professions;
- safeguarding consumers from deceptive business practices;
- ensuring a fair and competitive marketplace in which businesses have the flexibility to operate in order to promote economic and community development within the state;
- requiring adherence to certain recognized and established standards of conduct in consumer and financial service industries and professions; and
- protecting life and property through fire prevention, education, investigation and enforcement, and access to enhanced emergency communications.

All programs support the central mission of the department and have a direct impact on the physical and financial health, education, and public safety of Tennessee’s citizens. The following are the department’s seven major programs:

**Consumer Affairs** – Protects consumers from deceptive business practices through complaint mediation, consumer education, investigations, and formal actions.

**Emergency Communications Board** – Protects the public through implementation of statewide enhanced 911 service for land and wireless lines.

**Fire Prevention** – Protects life and property through fire prevention, education, investigations, and enforcement.

**Insurance** – Protects the public through oversight and administration of insurance statutes to ensure the financial integrity of companies operating in the state and ensure that companies and agents are acting in compliance with the state law.

**Regulatory Boards** – Protects the health and safety of citizens through boards and commissions, by ensuring that persons meet minimum professional standards, by responsively and timely handling complaints, and by providing consumer education on regulated professions and industries.

**Securities** – Protects investors by enforcing the Tennessee Securities Act of 1980 and by maintaining the integrity of the securities market.

**TennCare Oversight** – Protects the public health and integrity of the TennCare Program by overseeing, examining, and monitoring MCOs participating in the program.

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

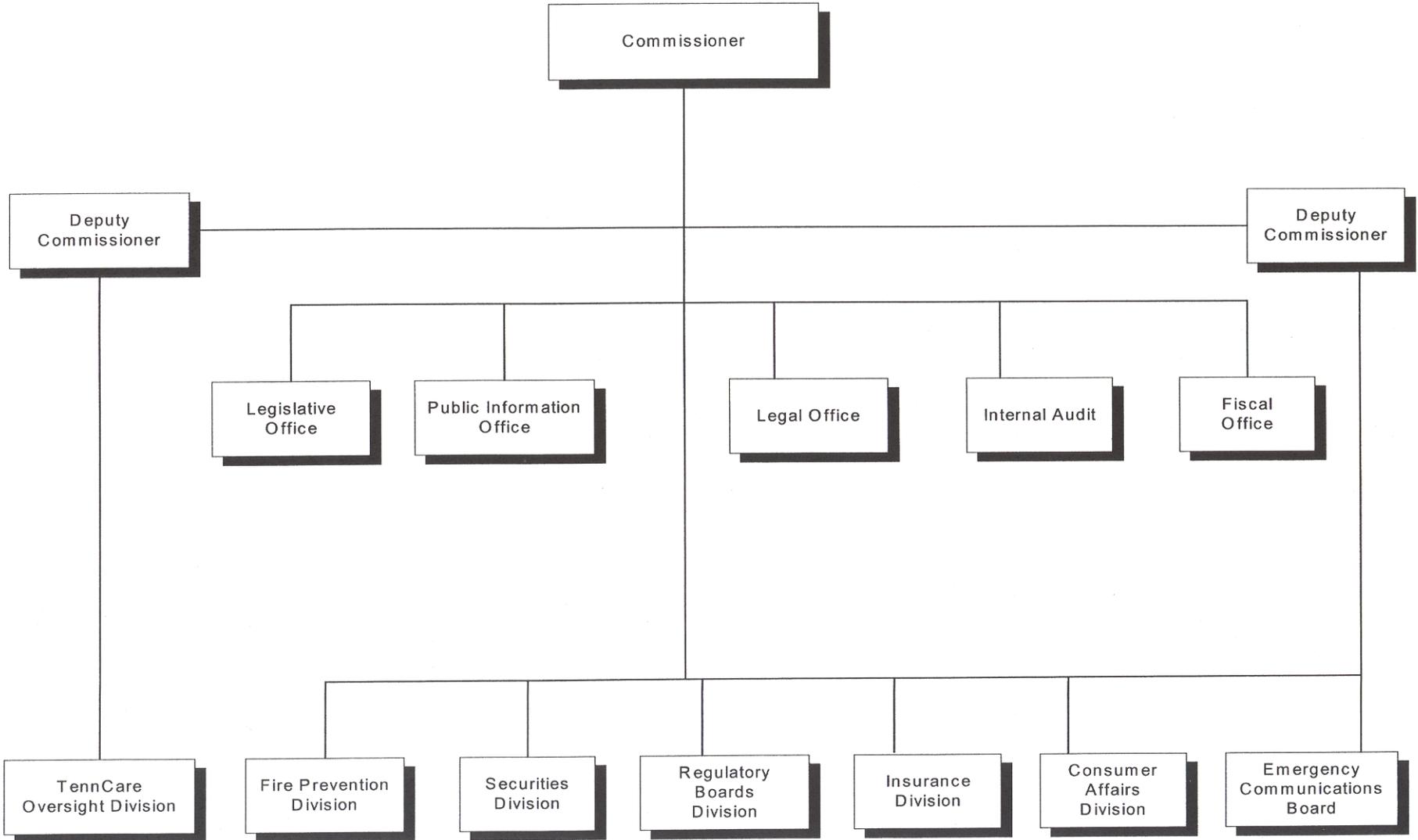
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## AUDIT SCOPE

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We have audited the Department of Commerce and Insurance for the period July 1, 1999, 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 of Modular Housing, Manufactured Housing, Arson, Consumer Affairs, Securities, Insurance, the Boxing and Racing Board, the Collection Service Board, the Cosmetology Board, the Land Surveyors Board, the Alarm Systems Contractors Board, the Emergency Communications Board, Disbursements, Payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

**DEPARTMENT OF COMMERCE AND INSURANCE  
ORGANIZATION CHART**



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## **PRIOR AUDIT FINDINGS**

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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 Commerce and Insurance filed its report with the Department of Audit on April 5, 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 Commerce and Insurance has corrected previous audit findings concerning failure to follow insurance examination procedures, inadequate desk examination procedures, failure to follow “target examination” procedures, inadequate documentation maintained by the department, lack of written policies and procedures for the preparation of the Division of Regulatory Boards annual report, failure to monitor modular housing inspections, failure to establish motor vehicle policies in compliance with state law, and failure to prepare a department-wide annual report.

### **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning inadequate documentation of manufactured housing inspections and failure to comply with procedures for follow-up with consumer complaints. These findings have not been resolved and are repeated in the applicable sections of this report.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **MODULAR HOUSING**

The Codes Enforcement section of the Division of Fire Prevention is responsible for monitoring the construction and installation of modular buildings used for educational, business, residential, storage, and other purposes.

The objectives of our review of modular housing policies and procedures were to determine whether the section’s policies and procedures were adequate to carry out its function, to determine whether the section follows its policies and procedures, and to follow up on the prior audit finding.

We interviewed key personnel to gain an understanding of the section's modular housing policies and procedures. We also reviewed supporting documentation for these policies and procedures. In addition, testwork was performed on a sample of construction inspection agencies and modular housing manufacturers for calendar years 2001 and 2000 to determine if the section was in compliance with its policies and procedures for documenting modular housing inspections.

Based on our interviews, review of supporting documentation, and testwork, it appears that the policies and procedures for documenting modular housing inspections were adequate and were followed. The prior finding has been resolved.

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## **MANUFACTURED HOUSING**

The Codes Enforcement section of the Division of Fire Prevention is responsible for performing in-plant production line inspections of manufactured homes during the course of construction, performing inspections of completed manufactured homes on dealer lots, and providing oversight of third-party inspection agencies.

The objectives of our review of the manufactured housing policies and procedures were to determine whether the section's policies and procedures were adequate to carry out its function, to determine whether the section follows its policies and procedures, and to follow up on the prior audit finding.

We reviewed applicable laws and regulations to determine the Codes Enforcement section's responsibilities for manufactured housing. We interviewed key personnel to gain an understanding of the section's policies and procedures for manufactured housing. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of manufactured housing manufacturer files to determine if the section was in compliance with its policies and procedures for documenting manufactured housing inspections.

Based on our interviews, review of supporting documentation, and testwork, it appears that the policies and procedures for documenting manufactured housing inspections were adequate; however, policies and procedures were not followed. The prior finding has been repeated. This matter is discussed in finding 1.

### **1. There is insufficient documentation of manufactured housing inspections to determine compliance with regulations**

#### **Finding**

The U.S. Housing and Urban Development (HUD) agency and the Codes Enforcement section in the state Division of Fire Prevention regulate manufactured housing (mobile home) production in Tennessee. HUD regulations require all manufactured home manufacturers to have a Production Inspection Primary Inspection Agency (IPIA). The State of Tennessee, as the IPIA

for all manufactured home manufacturers in the state, is responsible for the inspection of these homes. State inspectors must be at all manufacturing plants year-round, but different inspectors rotate among the plants. The inspectors send monthly recap sheets with all inspection reports for the month to the Codes Enforcement office. The inspection reports are filled out at the manufacturer's site, and the information is then transcribed to the monthly recap sheet.

As noted in the prior audit, there was insufficient evidence that inspectors performed all of the required actions for inspections of quality assurance manuals and approved designs, certification label storage and recording procedures, and the manufacturer's test equipment. In addition, insufficient evidence was also noted for inspections of manufacturers' material in storage, tests of performance, and product certification reports. Management concurred with the prior finding indicating that changes to improve compliance and documentation had been implemented. However, the following discrepancies were noted.

- A. In 4 of 25 manufacturers' files tested (16%), the quality assurance manual and the approved designs were not reviewed once a week. Per HUD regulations, every manufactured home in the manufacturing plant is to be inspected at least once in some phase of production with respect to the manufacturer's quality assurance manual and approved designs.

To ensure the inspector clearly understands and performs the inspection with respect to compliance with approved designs, Section C.5 of Codes Enforcement's *Procedures for Manufactured Housing Inspectors* requires the inspector to review the quality assurance manual and approved designs at the beginning of each inspection visit and to study these at least once a week during the visit.

If the Codes Enforcement section does not enforce policies and procedures for the inspector's review of quality assurance manuals and approved designs, the inspector might not detect a nonconformance in a manufactured home. A nonconformance missed in one home could occur in many other homes and would not be corrected before the manufacturing plant shipped the homes.

- B. In 4 of 25 manufacturers' files tested (16%) there was no evidence that the inspector reviewed the manufacturer's certification label storage and recording procedures at least once a month. HUD requires the IPIA to provide the manufacturer with a two-to four-week supply of certification labels. The Codes Enforcement section's procedures manual (C.7) requires the inspector to review for certification label control and certification labels on hand at least once a month.

The failure of the section to follow its policies and procedures for the review of certification label control and certification labels on hand could result in the possible disqualification of the state of Tennessee as the IPIA for manufactured homes in the state.

- C. In 8 of 25 manufacturers' files tested (32%), there was conflicting evidence concerning whether the inspector observed the manufacturer's test equipment. Three of the eight manufacturers' files tested had no evidence that a review was performed. Five of the manufacturers' files tested documented a review on the monthly recap sheet but not on the inspection report.

The Codes Enforcement section's procedures manual (C.3.a and b) requires the inspector to observe the condition of all test equipment at least once a month. Furthermore, Section D, "Conducting Plant Inspections and Preparing Reports," of the procedures manual states, "When test equipment is checked, place an X in the observation column."

The failure of the section to follow policies and procedures for the observance of the manufacturer's test equipment could result in unacceptable conditions not being detected. The failure to have consistency between the inspection reports and monthly recap sheets could result in inaccurate information being relied on as evidence of inspections.

- D. In 6 of 25 manufacturers' files tested (24%), the inspections for materials in storage were documented on the monthly recap sheet but not on the inspection report. The *Procedures for Manufactured Housing Inspectors*, Section C.2, states that the inspection will be performed once per month and results will be reported on Form A (the inspection report). The failure to have consistency between the inspection reports and monthly recap sheets makes it impossible to be certain whether inspections were performed as required.
- E. In 6 of the 25 manufacturers' files tested (24%), the inspection reports were not properly completed for test performance reviews. Serial numbers of the units were not recorded, nor was the inspection documented.

The *Procedures for Manufactured Housing Inspectors* (Section C) requires that the inspector "observe at least one test per inspection visit" and that "the inspection will consist of actual observance of the electrical, plumbing or gas line tests as required in the approved QA [quality assurance] manual." The procedures also require the inspectors to "list the serial number of each unit on which a test was performed" on the inspection report.

The failure to follow inspection policies could result in the manufacturer producing substandard manufactured housing.

- F. In 6 of 25 manufacturers' files tested (24%), the product certification reports were not reviewed once a week as required. From one to four reviews were not performed for the months tested. The procedures manual states that "the product certification reports will be reviewed once per week as necessary to stay thoroughly familiar with their contents."

If the Codes Enforcement section does not enforce policies and procedures for the inspector's review of product certification reports, the inspector might not detect a nonconformance in the installation of products in the units, and substandard manufactured housing could result.

### **Recommendation**

Management of the Codes Enforcement section should have a system for identifying problems and taking action to enforce policies and procedures for the inspection of manufactured homes. The system should include the prompt review of the inspection reports and monthly recap sheets to ensure they are completed in accordance with the section's manufactured housing policies.

### **Management's Comment**

- A. We concur. HUD regulations do require our inspectors to review the manufacturer's Quality Assurance Manual and approved designs on a weekly basis. Based on the audit findings, we have taken specific steps to ensure that this requirement is met and that the results of the inspection are properly documented. More specifically, two meetings have occurred in June and July 2002 to emphasize this requirement with our inspectors. A memorandum is also being prepared to provide specific instructions as to the proper documentation of the inspection. Furthermore, effective July 1, 2002, we have required all reports and recap sheets to be reviewed for completeness and compliance by each supervisor. And, finally, we have made it clear to the inspectors and their supervisors that failure to comply with these requirements could result in a performance-based action in terms of their annual job appraisals.
- B. We concur. Clearly, in 4 of the 25 manufacturer's files tested, there was no evidence of the monthly review. As documented in the audit findings, our own standards require this monthly review. Instructions have been provided to our inspectors and supervisors of the need to not only conduct this monthly review but to document their findings in their reports. In fact, we have taken extra steps above the HUD standards and require our inspectors to include in the daily log sheets specific label verification information as to the label affixed to each home.

In addition to inspectors reviewing actual labels and controls over them, manufacturers provide both HUD and Codes Enforcement a report entitled HBT-302. We believe that any abnormalities of label reporting would show up on this monthly HBT-302 report, which contains each label's destination (in-state or out-of-state retailer) and the designation of each home the facility produced during the month. The State maintains a copy of this document and forwards a copy each month to HUD along with the SAA report. HUD then compares the report that is received directly from the manufacturer and the copy received from the Codes Enforcement section. Thereafter, the State receives a printout of all new homes shipped to dealers in the State from HUD. If HUD notes any discrepancies, a report is generated which lists

these discrepancies and it is sent to Codes Enforcement for investigation. This provides checks and balances of label usage.

- C. We concur. Monitoring of test equipment is certainly a very important detail. This documentation, as such, may be found in four locations: (1) on the recap sheet; (2) on form "A" of the daily reports where test observation is located; (3) in the comment section on form "A"; and (4) on form "D" supplemental documentation. The issue of inconsistent reporting has been discussed with the inspectors, and the supervisors have been instructed that monthly recap sheets and daily reports should reconcile in displaying all tests and observations. The same remedial actions will be applicable as noted in part A of our response.
- D. We concur. Again, this has been discussed with the inspectors and reinforced by citations documented during HBT reviews. The supervisors will review the reports for inconsistencies, document their findings, and dispense remedial action as needed.
- E. We concur. As an aid to plant inspectors, a 16-page form (the IPIA CCI Checklist) developed by the Manufactured Housing Section is used to examine certain computer-coded items each inspection visit. According to the form, the inspector knows which test must be observed on that particular inspection. Each daily inspection of the facility results in one page of the form being completed. Only one of the 16 pages does not have a particular test observation indicated. The monthly recap sheet will be amended to add, "Tests observed according to CCI Sheet."
- F. We concur. We believe this is not an inspection problem, but a documentation problem. The section formerly had a manufacturer's instruction checklist for the most important appliances and fixtures (refrigerator, stove, water heater, etc.). In order to perform an inspection of these items, an inspector must be familiar with the installation instructions because they are often not included in the manufacturer's design package. This checklist will be reinstated, and the supervisors will monitor each inspector's reports for this checklist.

In conclusion, the Manufactured Housing Inspector Supervisors will monitor all daily reports and monthly recap sheets for completeness and compliance with the section's procedures. The supervisors will make corrections after consulting with the individual inspectors. Both the individual inspectors and their supervisors will be held accountable through the use of their performance evaluations.

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## **ARSON**

The Arson section in the Division of Fire Prevention is responsible for investigating the cause, origin, and circumstances of fires, explosions, and other criminal acts where a fire or explosion is involved, including the investigation of all related deaths.

The objectives of our review of the policies and procedures for the Arson section were to determine the adequacy of the policies and procedures to carry out the section's responsibilities, and whether the section follows its policies and procedures.

We interviewed key personnel to gain an understanding of the section's arson investigation policies and procedures. We also reviewed supporting documentation for these policies and procedures. In addition, testwork was performed on a sample of investigation files to determine if there was evidence the investigation was begun promptly and whether there was adequate documentation of the investigation.

Based on our interviews, review of supporting documentation, and testwork, it appears that the policies and procedures over arson investigations were adequate and were followed.

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## CONSUMER AFFAIRS

The Division of Consumer Affairs coordinates with other divisions, in addition to other state and federal agencies, to mediate or otherwise resolve consumer complaints.

The objectives of our review of the complaint resolution system in the Division of Consumer Affairs were to determine whether policies and procedures for complaint follow-up were adequate, to determine whether follow-up on complaints was done properly, and to follow up on the prior audit finding.

We interviewed key personnel to gain an understanding of the division's policies and procedures for resolving consumer complaints. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of complaints to determine if complaints were followed up on properly.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Division of Consumer Affairs developed adequate policies and procedures to properly follow up on consumer complaints; however, the complaint follow-up procedures were not followed. The prior-year finding has been repeated, and this matter is discussed in finding 2. In addition to the finding, a minor weakness was reported to management in a separate letter.

### **2. The Division of Consumer Affairs does not comply with its procedures for handling complaints**

#### **Finding**

The mission of the Division of Consumer Affairs is to serve and protect consumers from deceptive business practices through the processes of mediation, education, investigation, litigation, legislation, and registration. The division receives between 5,000 and 7,000 complaints every year. When a complaint is received, the division mails a postcard to the

complainant acknowledging receipt of the complaint and advising that it will attempt to get a response. The division creates a file for each complaint it receives and divides the complaints by category among the Consumer Protection Specialists. These specialists attempt to mediate a successful outcome for the consumer by contacting the respondent (the entity or individual against whom the complaint is made).

As noted in the previous audit, the Division of Consumer Affairs did not comply with its policies and procedures for timely follow-up on complaints. Management concurred with the prior finding indicating that a daily follow-up report was added to the Complaint Management System log-in process. The Consumer Protection Specialist cannot access the system until the report is completed. However, completing the report does not ensure the timely follow-up on complaints or compliance with the division's policies and procedures. The following discrepancies were noted.

The *Employee Procedures Manual* for the Division of Consumer Affairs requires the first letter to be sent to the respondent no more than five business days after the complaint file is created. In 13 of 24 complaint files tested (54%), the first letter to the respondent was sent from one to 28 days late.

The procedures also require the specialists to send a second letter to the respondent, by certified mail, within 10 to 15 business days if no reply to the first letter has been received. In 3 of 9 complaint files tested (33%), the second letter to the respondent was sent from one to 22 days late. In 4 of 9 complaint files tested (44%), a second letter did not appear to be sent to the respondent.

In addition to failing to comply with timely follow-up procedures, the Division of Consumer Affairs did not properly document closed case files. Two of 22 closed complaint files tested (9%) contained no documentation to support the closed designation in the computer system. Two of the 22 files tested (9%) did not contain the specialist's signature on the file.

Failure of the Division of Consumer Affairs to adhere to its policies and procedures could result in a delay of the proper resolution of complaints.

### **Recommendation**

In order to effectively and efficiently serve and protect consumers, management of the Division of Consumer Affairs should ensure that all policies and procedures for responding to and resolving consumer complaints are followed.

### **Management's Comment**

We concur. The Division has developed and implemented the following corrective actions and policy changes to eliminate the deficiencies noted in the audit:

- A. The complaint file creation date is now defined as the date the complaint data is entered into the CMS system. This date will be the point from which a timely response to the complainant is measured. All written complaints that are received are still date stamped on their arrival.
- B. The policy governing the first letter to the respondent has been revised to allow 10 business days for processing rather than five business days to more accurately reflect industry norms and to accommodate the limited resources available to the Division for complaint processing and resolution. The postcard to the consumer is still processed within three days of the file creation to inform the consumer that the complaint was received and give the complaint file number.
- C. As noted in the finding, there was evidence that second letters were not sent to respondents or not sent in a timely manner. The Division has revised procedures to now allow the Consumer Protection Specialist to exercise reasonable discretion in determining the appropriate follow-up date on a case-by-case basis. Additionally, the Specialist will consult with the Director or Assistant Director for proper guidance when it is not possible to work a complaint that is an exception to the routine procedures.
- D. The director and/or the assistant director of the division will perform a monthly review of consumer protection specialists' files that have been opened, are being resolved, and have been closed during the month. This will ensure that all required letters are sent in a timely manner, appropriate CMS printouts are included in the file when it is closed, complete and accurate data as to the resolution of the complaint, date of file closure, and that all necessary signatures or initials are present.

A revised Employee Procedures Manual is being assembled that includes these revised policies. Management will review these policies and procedures with all Consumer Protection Specialists and stress the importance of adherence to these policies and procedures.

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## **SECURITIES**

The Division of Securities is responsible for registering all non-exempt securities to be sold in the State of Tennessee and registering all broker/dealers, registered representatives, and investment advisors to do business in the state.

The objectives of our review of policies and procedures for the Division of Securities were to determine whether

- policies and procedures within the division were adequate and based on current state law;
- the division had complied with statutes governing the registration and renewal processes for broker-dealers and securities, and had collected the appropriate fees; and

- the division had complied with statutes governing issuer refunds for securities and had refunded the proper amounts.

We interviewed key personnel to gain an understanding of the department's policies and procedures over broker-dealer registration and securities registration. We also reviewed supporting documentation for these policies and procedures. We tested samples of broker-dealer registrations and security registrations to determine whether the registrations were in compliance with statutes and whether the appropriate fees were collected. In addition, we tested a sample of refunds to determine if the refunds were issued in compliance with statutes and the proper amount was refunded.

Based on interviews, review of supporting documentation, and testwork, it appears that the division's policies and procedures were adequate and in compliance with state law. It also appears that registration and refund policies and procedures were followed.

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## **INSURANCE**

The Company Examination section in the Division of Insurance is responsible for regulating the formation, admission, operation, and examinations of the life companies, casualty companies, title companies, captives, health maintenance organizations, governmental entity pools, and risk retention groups. This section reviews and analyzes financial statements and performs detailed examinations of each company.

The objectives of our review of the policies and procedures for the Company Examination section were to determine the adequacy of the procedures to carry out the section's responsibilities, to determine whether the section follows its procedures, and to follow up on prior audit findings.

We interviewed key personnel to gain an understanding of the Company Examination section's policies and procedures for the financial statement reviews and detailed examinations. We also reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on samples of quarterly reviews, annual reviews, and detailed examinations to determine whether reviews were performed in accordance with the section's policies and procedures.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Company Examination section's policies and procedures were adequate and were followed. The prior-year findings were resolved. Although we had no findings related to the Company Examination section, a minor weakness was reported to management in a separate letter.

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## **BOXING AND RACING BOARD**

The Boxing and Racing Board in the Division of Regulatory Boards is responsible for the licensing of boxers, promoters, managers, seconds, referees, judges, and timekeepers for boxing matches and toughman contests; monitoring boxing matches and toughman contests; and licensing racetracks.

The objectives of our review of the policies and procedures of the Boxing and Racing Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Boxing and Racing Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of files to determine compliance with state law in license issuance/renewal for racetracks and boxing/toughman contest monitoring.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Boxing and Racing Board's policies and procedures over license issuance for racetracks and monitoring of boxing/toughman contests were adequate and were followed. Although we had no findings related to the Boxing and Racing Board, a minor weakness was reported to management in a separate letter.

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## **COLLECTION SERVICE BOARD**

The Collection Service Board in the Division of Regulatory Boards is responsible for the regulation of the collections industry, including the enacting of rules and regulations; granting licenses to applicants; initiating investigations; suspending, revoking, or canceling licenses for cause; and ensuring compliance with enacted legislation pertaining to the collections industry.

The objectives of our review of the policies and procedures of the Collection Service Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Collection Service Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of files to determine compliance with state law in license issuance for collection agency, collection manager, and branch office applicants.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Collection Service Board's policies and procedures over license issuance were adequate and were followed.

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## **COSMETOLOGY BOARD**

The Cosmetology Board in the Division of Regulatory Boards is responsible for the regulation of the practice of cosmetology, including the licensure and registration of cosmetologists, cosmetology instructors, aestheticians, manicurists, shampoo technicians, natural hair stylists, cosmetology shops, and cosmetology schools.

The objectives of our review of the policies and procedures of the Cosmetology Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Cosmetology Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of files to determine compliance with state law in license issuance for cosmetologists, cosmetology shops, and cosmetology schools.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Cosmetology Board's policies and procedures over license issuance were adequate and were followed.

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## **LAND SURVEYORS BOARD**

The Land Surveyors Board in the Division of Regulatory Boards is responsible for licensing land surveyors, renewing licenses, monitoring continuing education, and processing complaints.

The objectives of our review of the policies and procedures of the Land Surveyors Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Land Surveyors Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of files to determine compliance with state law in license issuance/renewal for the land surveyor certification.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Land Surveyors Board's policies and procedures over license issuance were adequate and were followed.

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## **ALARM SYSTEMS CONTRACTORS BOARD**

The Alarm Systems Contractors Board in the Division of Regulatory Boards is responsible for licensing of alarm contractors, qualified agents, and alarm contractor employees.

The objectives of our review of the policies and procedures of the Alarm Systems Contractors Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Alarm Systems Contractors Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of files to determine compliance with state law in license issuance for alarm contractors and qualified agents.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Alarm Systems Contractors Board's policies and procedures over license issuance were adequate and were followed.

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## **EMERGENCY COMMUNICATIONS BOARD**

The Emergency Communications Board is responsible for ensuring wireless 9-1-1 service is implemented across the State of Tennessee in accordance with the Federal Communications Commission's regulations in the most cost-effective and efficient manner. The board also provides financial, operational, and technical oversight to emergency communication districts in the state.

The objectives of our review of the policies and procedures of the Emergency Communications Board were to determine the adequacy of the board's policies and procedures to carry out its responsibilities and whether the board follows its policies and procedures.

We reviewed applicable laws and regulations to determine the Emergency Communications Board's responsibilities. We interviewed key personnel to gain an understanding of the board's policies and procedures. We reviewed supporting documentation for these policies and procedures. In addition, we performed testwork on a sample of disbursements to determine compliance with state law.

Based on our interviews, review of supporting documentation, and testwork, it appears that the Emergency Communications Board's policies and procedures over disbursements were adequate and were followed.

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## **DISBURSEMENTS**

The objectives of our review of the policies and procedures for handling disbursements within the Division of Fiscal Services were to determine if disbursements were adequately

supported, correctly recorded, mathematically adequate, properly approved, and processed in accordance with the applicable rules and regulations.

We reviewed applicable laws and regulations for handling disbursements. We interviewed key personnel to gain an understanding of the department's procedures and controls over disbursements. In addition, we performed testwork on a sample of disbursements to determine compliance with these procedures.

Based on our interviews, review of supporting documentation, and testwork, it appears disbursements were adequately supported, correctly recorded, mathematically adequate, properly approved, and processed in accordance with the applicable rules and regulations.

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## **PAYROLL**

The objectives of our review of the Division of Personnel were to determine whether the division's policies and procedures were adequate to carry out its function and that the division follows its policies and procedures.

We interviewed key personnel to gain an understanding of the division's policies and procedures. We also reviewed supporting documentation for these policies and procedures. In addition, testwork was performed on a sample of payroll expenditures for fiscal years 2001 and 2000 to determine if the division was in compliance with its policies and procedures. Based on our interviews, review of supporting documentation, and testwork, it appears that the Division of Personnel's policies and procedures relating to payroll were adequate and were followed.

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## **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 each year.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

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## OBSERVATIONS AND COMMENTS

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

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Commerce and Insurance filed its compliance reports and implementation plans on June 29, 2000, and July 5, 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 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.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Department of Commerce and Insurance divisions and allotment codes:

- 335.01 Division of Administration
- 335.02 Division of Insurance
- 335.03 Division of Fire Prevention
- 335.04 Division of TennCare Oversight
- 335.05 Division of Securities
- 335.06 Division of Consumer Affairs
- 335.07 Fire Service and Codes Enforcement Academy
- 335.08 911 Emergency Communications
- 335.10 Division of Regulatory Boards
- 335.15 Real Estate Education and Recovery
- 335.16 Auctioneer Education and Recovery
- 335.28 Tennessee Commission on Fire Fighting Personnel