

**Department of Labor and Workforce Development**

**For the Year Ended  
June 30, 2002**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

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

**John G. Morgan**  
Comptroller

May 13, 2003

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Labor and Workforce Development for the year ended June 30, 2002.

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/ds  
02/096



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

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January 17, 2003

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

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Labor and Workforce Development for the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Labor and Workforce Development's compliance with the provisions of policies, procedures, laws, regulations, contracts, and grants significant to the audit. Management of the Department of Labor and Workforce Development is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/ds

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Labor and Workforce Development**  
For the Year Ended June 30, 2002

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## AUDIT SCOPE

We have audited the Department of Labor and Workforce Development for the period July 1, 2001, through June 30, 2002. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002, and the *Tennessee Single Audit Report* for the same period. These areas included Unemployment Insurance and the Workforce Investment Act Cluster. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, payroll, the Employment Security Trust Fund, contingent and deferred revenue, and equipment. Our report also includes the results of a special investigation. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

### **Grant-funding Information Is Not Always Recorded Properly in the State's Property Records**

The department did not show equipment purchased during the audit period as purchased, in whole or in part, with federal funds (page 11).

### **The Activities of Two Contractors Hired by the Department Were Not Adequately Monitored**

Two Information Technology Professional Services contractors were not monitored, resulting in the state being overbilled (page 18).

### **The Middle Tennessee Career Center at MetroCenter Did Not Maintain Information Used to Certify Participants' Eligibility**

Information used to determine eligibility for enrollees of the Workforce Investment Act program was not maintained (page 13).

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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 Labor and Workforce Development**  
**For the Year Ended June 30, 2002**

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# **Department of Labor and Workforce Development For the Year Ended June 30, 2002**

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

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

### **BACKGROUND**

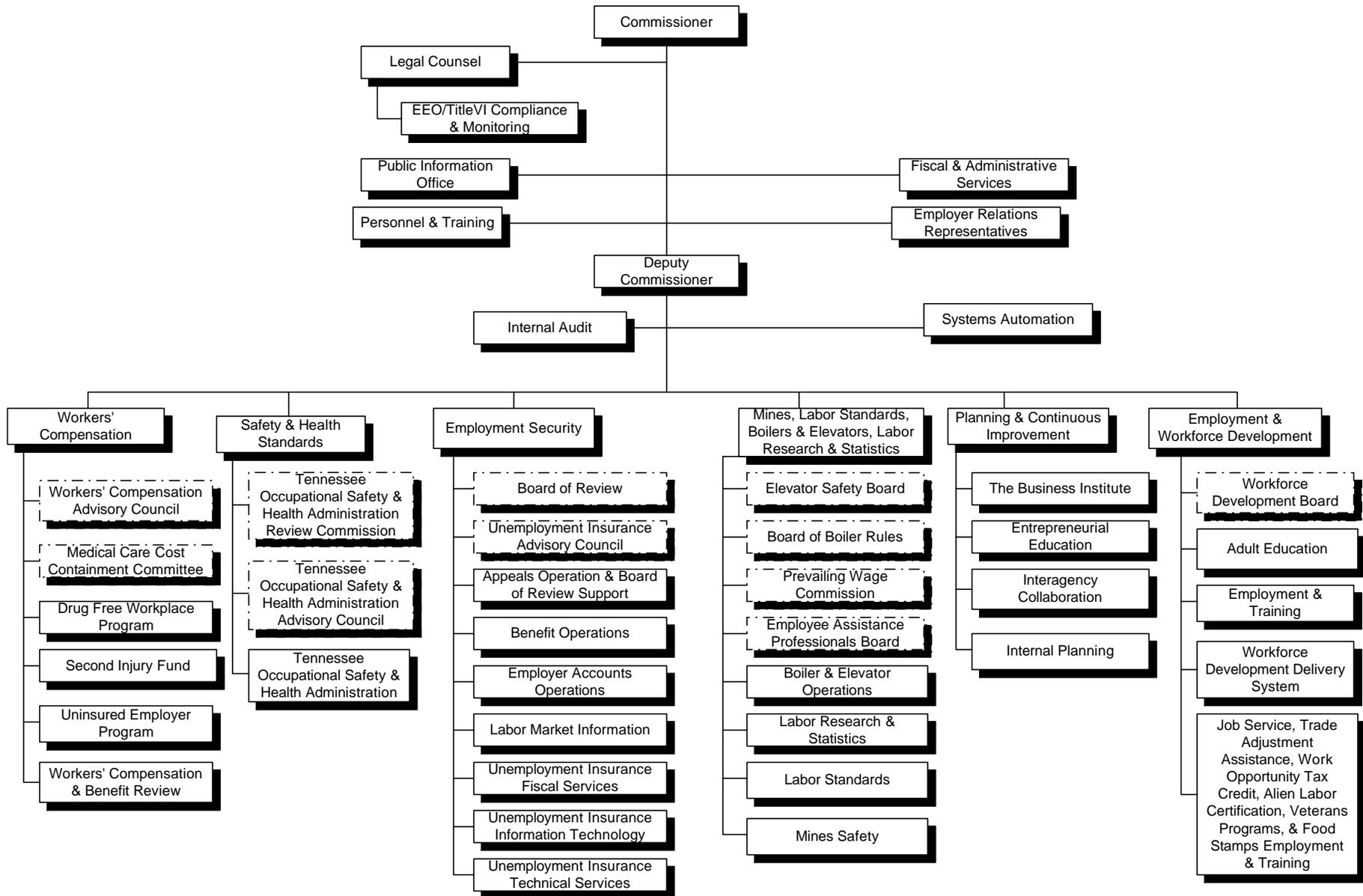
In May 1999, the 101st General Assembly unanimously adopted the Tennessee Workforce Development Act of 1999, which created a new Department of Labor and Workforce Development, integrating the existing departments of Labor and Employment Security, the Adult Education program, and the employment and training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

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

The six programmatic areas of the department include Workers’ Compensation; Safety and Health Standards; Employment Security; Mines, Labor Standards, Boilers and Elevators, and Labor Research and Statistics; Planning and Continuous Improvement; and Employment and Workforce Development.

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

# Department of Labor & Workforce Development Organization Chart



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## **AUDIT SCOPE**

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We have audited the Department of Labor and Workforce Development for the period July 1, 2001, through June 30, 2002. Our audit scope included those areas material to the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002, and the *Tennessee Single Audit Report* for the same period. These areas included Unemployment Insurance and the Workforce Investment Act Cluster. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, payroll, the Employment Security Trust Fund, contingent and deferred revenue, and equipment. Our report also includes the results of a special investigation. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

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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 Labor and Workforce Development filed its report with the Department of Audit on August 26, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDING**

The current audit disclosed that the Department of Labor and Workforce Development has corrected the previous audit findings concerning the completion of the department's annual inventory, compliance with the Department of Finance and Administration's Policy 22, obtaining and reviewing single audit reports of the department's subrecipients, maintaining access code authorization forms, and the submission of the department's Title IX Compliance Report and Implementation Plan.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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

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

Our audit of the Department of Labor and Workforce Development is also an integral part of the *Tennessee Single Audit*, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Single Audit Act, as amended, requires us to determine whether

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

We determined the following areas within the Department of Labor and Workforce Development were material to the *CAFR* and to the *Single Audit Report*: Unemployment Insurance and the Workforce Investment Act Cluster.

To address the objectives of the audit of the *CAFR* and the *Single Audit Report*, as they pertain to these two 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, 2002, and have issued our report dated January 17, 2003. The opinion on the financial statements is unqualified. The *Tennessee Single Audit Report* for the year ended June 30, 2002, 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 instances of noncompliance resulting from this audit.

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

- The department did not correctly record grant-funding information in the state's property records
- The Middle Tennessee Career Center at MetroCenter did not maintain adequate documentation of the information used to certify participants' eligibility for the Workforce Investment Act Program
- The department did not appropriately monitor the activities of two Information Technology Professional Services contractors

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

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## **MAJOR FEDERAL AWARD PROGRAMS**

### **UNEMPLOYMENT INSURANCE**

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

### **WORKFORCE INVESTMENT ACT**

The Workforce Investment Act of 1998 (WIA) reforms federal job training programs and creates a new comprehensive workforce investment system. It is designed to help state and local communities provide workers with the information, advice, job search assistance, and training they need to secure and maintain good jobs while also providing employers with skilled workers. The Department of Labor and Workforce Development is funded for activities authorized under Subtitle B of Title 1 of the WIA program. There are three program categories under Subtitle B of Title I: Adult, Youth, and Dislocated Workers.

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

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Procurement
- Earmarking

- Period of Availability of Federal Funds
- Federal Reporting
- Subrecipient Monitoring
- Special Tests and Provisions
- Schedule of Expenditures of Federal Awards
- Information Systems

The audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

### **General Internal Control**

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

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

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

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

We determined that, in all material respects, grant funds were spent for allowable activities in compliance with grant requirements and were properly recorded to the applicable federal grant and the proper grant program. However, as discussed in finding 3, the department was overbilled by contractors working on the department's Case Management and Activity Tracking System.

## **Cash Management**

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

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

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

## **Eligibility**

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

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

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

Also, a nonstatistical sample of Workforce Investment Act participants' files was selected, and the files were tested at the applicable Local Workforce Investment Area to determine if adequate eligibility documentation was maintained in the participants' files.

Based on testwork performed, adequate documentation of information used to determine enrollees' eligibility was not always maintained as discussed in finding 2.

## **Equipment and Real Property Management**

Our objectives for the applicable federal programs were to follow up the prior audit finding concerning annual physical inventory and to determine if the department properly coded the grant-funded equipment on the Property of the State of Tennessee (POST) system.

We discussed with management and reviewed supporting documentation to determine if the annual physical inventory had been completed timely. We also obtained and reviewed the department's equipment acquisition list for the current audit period and reviewed the supporting

documentation to determine if equipment purchased with grant funds was properly recorded in POST.

We determined that the prior audit finding concerning annual physical inventory was resolved. Based on a review of the department's equipment acquisition list and supporting documentation, we determined equipment purchased with grant funds was not properly recorded in POST as noted in finding 2.

## **Procurement**

The objective for the applicable major federal program was to determine whether the Local Workforce Area Boards and units of state or local government (a) were in compliance with the cost reimbursement basis of procurement, which allows no provision for profit; and (b) identified eligible providers of youth activities by awarding grants and contracts on a competitive basis, based on recommendation of the Youth Council.

The supporting documentation and approval of cost, quantity, and description of purchased equipment were reviewed at the applicable Local Workforce Investment Area to determine the area's compliance with the provision of no profit on their purchases. Also procurement of Youth Subcontracts were tested during the field visits. The bidding process was discussed with the appropriate personnel. The bid proposals and the Board Minutes documenting the Youth Council Board's determination of the bids were reviewed to determine compliance with identifying eligible providers of youth activities.

Based on interviews with appropriate personnel, review of supporting documentation, and testwork, it appears that the Local Workforce Investment Area and Boards are in compliance with procurement procedures, which allow no provision for profit and identifying eligible providers of youth activities.

## **Earmarking**

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

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

We determined that the earmarking requirements were identified and met.

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

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

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

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

## **Federal Reporting**

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

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

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

## **Subrecipient Monitoring**

Our objectives for the Workforce Investment Act Cluster were to follow up prior audit findings concerning compliance with Finance and Administration's Policy 22 and review of single audit reports of its subrecipients and to determine whether the subrecipient monitoring related to the federal program was adequate.

The subrecipient monitoring plan was reviewed and evaluated for completeness. A non-statistical sample of monitors' working papers were reviewed and tested to determine if monitoring was adequate.

Based on the review of the monitoring plan and testwork performed, it was determined that subrecipient monitoring was adequate except for the minor weaknesses reported to management in a separate letter. In addition, the prior audit findings concerning compliance with Finance and Administration's Policy 22 and review of single audit reports were resolved.

## **Special Tests and Provisions**

Specific requirements for special tests and provisions for the Unemployment Insurance program were obtained by review of OMB Circular A-133, *Compliance Supplement*; interviews

with key employees; and review of laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

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

#### Employer Experience Rating

Our main objectives were to verify the accuracy of the employer's annual state Unemployment Insurance tax rate and determine if the tax rate was properly applied by the state. Key employees were interviewed about procedures related to the computation of the employer's annual tax rate. We tested the state's computer calculation of the Employer Experience Ratings by using Computer Assisted Audit Techniques (CAATs). The dollar amounts of errors, and the percentages to the total of employers' premiums for fiscal year 2002 were determined.

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

#### Match With IRS 940 FUTA Tax Form

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

Key employees were interviewed about the procedures for certifying state FUTA tax credits. The auditor observed the department's process of merging the IRS FUTA Identification File and the Employer Accounts data file and the two error files generated by the program. One report indicates discrepancies where the employer reports to the state but not the IRS and vice versa. The second report is the State Non-Filer error report. The auditor reviewed the supporting documentation and supplemental information used to correct the errors. Also, testwork was performed on a nonstatistical sample of employers who had not filed Tennessee Unemployment Tax for the audit period to determine if the department had made notification and attempted to collect any taxes due.

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

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

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

## **Information Systems**

Our primary objectives in the area of information systems were to follow up on the prior audit finding concerning maintaining access code authorization forms and to determine if controls over Unemployment Insurance System and Case Management Activity Tracking System are adequate.

We interviewed key department personnel to obtain an understanding of the department's Unemployment Insurance (UI) data validation and the Case Management & Activity System (CMATS).

We interviewed key personnel and completed general control and application control questionnaires to gain an understanding of the controls for the system and reviewed policies and procedures and other system documentation to determine if these were adequate and current. We tested nonstatistical samples related to employees' levels of access to the accounting systems to determine whether levels of access were appropriate and if security authorization forms were maintained and properly approved.

Based on our interviews, review of supporting documentation, and testwork, the department's policies and procedures manuals and other system documentation appear adequate and current. In addition, the prior audit finding concerning maintaining access code authorization forms was resolved.

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

### **1. The department did not correctly record grant-funding information in the state's property records**

#### **Finding**

The Department of Labor and Workforce Development does not always record the correct grant-funding information in the state's property records. A review of the department's listing of equipment purchased during the audit period revealed that none of the equipment had been coded as purchased, in whole or in part, with federal grant funds. This was discussed with management, and the property officer was asked to make corrections to the ownership codes recorded in Property of the State of Tennessee (POST), the state's property and equipment

tracking system. Upon reviewing information obtained from the fiscal office, it was noted that 35 of 38 equipment items (92%) purchased during the audit period were purchased, in whole or part, with federal funds, as follows:

- Eighteen equipment items were purchased for the Occupational Safety and Health\_State Program (50% federally funded) with federal funding of \$64,015.46.
- Twelve equipment items were purchased for Unemployment Insurance (100% federally funded) with federal funding of \$144,266.10.
- Two equipment items were purchased for Employment Service (100% federally funded) with federal funding of \$26,003.59.
- Two equipment items were purchased for Workforce Investment Act (100% federally funded) with federal funding of \$25,569.96.
- One equipment item was purchased for Adult Education\_State Grant Program (75% federally funded) with federal funding of \$5,354.40.

However, based on the subsequent review of the equipment listing from POST, it was revealed that the property officer had still not made all of the appropriate changes. The ownership code for 20 of the 35 equipment items purchased in whole or part with federal grant funds (57%) still did not agree with fiscal records. Seventeen equipment items were coded with an F (federal participation only) but should have been coded with an A (for joint federal and state participation). Two were incorrectly coded with a G (state participation only) but should have been coded with an A, and one was coded with a G but should have been coded with an F. Also, one of three equipment items purchased with state funds (33%) was coded with an F but should have been coded with a G.

The department must be able to distinguish between state and federal property. According to Office of Management and Budget Circular A-102, "Common Rule," and the *Code of Federal Regulations*, Title 29, Part 97, Section 32, the property records are required to include the percentage of federal participation in the cost of the property. If equipment purchased with federal funds is not correctly identified in the property records, the department's ability to transfer equipment, dispose of equipment, or reimburse the federal government in accordance with federal laws and regulations is greatly diminished.

### **Recommendation**

The Commissioner should ensure that the property officer completely and correctly enters all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

## Management's Comment

We concur that the Department of Labor and Workforce Development did not always record the correct grant-funding information in the state's property records. The Department's property officer has been instructed to completely and correctly enter all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

### **2. The Middle Tennessee Career Center at MetroCenter did not maintain adequate documentation of the information used to certify participants' eligibility for the Workforce Investment Act Program**

#### Finding

The Middle Tennessee Career Center at MetroCenter in Nashville does not maintain adequate documentation of information used to determine enrollees' eligibility for the Workforce Investment Act (WIA).

The Department of Labor and Workforce Development contracts with the Metropolitan Government of Nashville and Davidson County to establish programs to prepare adults, youth, and dislocated workers for reentry into the labor force and to offer training to individuals facing barriers to employment. These programs and services are provided under the provisions of the Workforce Investment Act of 1998. The Metropolitan Government of Nashville and Davidson County, by and through the Nashville Career Advancement Center, administers the Workforce Investment Act for Davidson, Rutherford, Trousdale, and Wilson Counties. These counties are collectively titled Local Workforce Investment Area #9. The Nashville Career Advancement Center coordinates services for the Middle Tennessee Career Center at MetroCenter, which serves Davidson County.

The Middle Tennessee Career Center at MetroCenter determines eligibility of enrollees in accordance with federal guidelines contained in the *Code of Federal Regulations*, Title 20, Sections 663-664. Information about eligible participants is maintained in the Case Management and Activity Tracking System (CMATS). During the enrollment process, case managers meet with potential applicants and verify documentation provided by the applicants. Each applicant is required to provide hard-copy documentation as described in the *CMATS WIA Program Manual* to support various eligibility criteria. This documentation may include verification of income, registration with Selective Service, driver's license, social security card, birth certificate, and/or verification of layoff. The case manager is responsible for verifying information used to certify applicants as eligible. Case managers determine participant eligibility based on the information provided by the participant. Services provided to the participants include job training, help with basic skills such as math and reading, training to obtain a GED, and assistance in pursuing an advanced degree or other types of technical training. Needs-based payments such as transportation and child care reimbursement are also provided.

Testwork at the Middle Tennessee Career Center at MetroCenter revealed 7 of 10 files tested for participants' eligibility (70%) did not contain adequate documentation to support verification of eligibility. However, documentation was maintained at the other ten local workforce investment areas visited. Per discussion with the Information Systems Director at the Nashville Career Advancement Center, the Middle Tennessee Career Center at MetroCenter stopped maintaining a photocopy of information provided by participants in January 2001.

Without adequate documentation of the information verified by case managers in order to certify a participant as eligible for program services, the risk is increased that ineligible enrollees may be enrolled in the Workforce Investment Act program and may receive services. Also, the department cannot ensure that the information entered into CMATS is accurate and that enrollees are eligible. Maintaining documentation is essential to the preparation of performance reports that are required under *Code of Federal Regulations*, Title 20, Section 666. Not maintaining this documentation also reduces accountability of case managers for information entered into CMATS and makes researching cases more difficult if errors are discovered while serving participants or preparing performance reports, which require specific information such as participant social security number.

### **Recommendation**

The Commissioner should ensure that the Middle Tennessee Career Center at MetroCenter maintains documentation of information used to determine eligibility for the Workforce Investment Act.

### **Management's Comment**

We concur with the finding; however the following information is provided in the CMATS Program Manual regarding the application process. If the applicant is referred to the WIA Title I program by Job Service/Career Center, the ESCOT APIQ form will be used to verify the items listed for each program. If Job Service/Career Center does not refer the applicant, the LWIA should verify items where verification is required. Verification/Documentation includes proof of a valid SSN (on card) issued to the participant by the Social Security Administration (SSA) or a driver's license with the SSN inscribed. Although implied, the manual does not specifically state that a copy of the verification/documentation should be maintained in an applicant's file. The CMATS manual will be updated to reflect that copies of verification/documentation should be either maintained in the applicant's file or scanned into the CMATS file.

## **REVENUE**

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

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

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

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

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## **CONTINGENT AND DEFERRED REVENUE**

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

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

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

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

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## **EMPLOYMENT SECURITY TRUST FUND**

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

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

We determined that the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements.

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## **EQUIPMENT**

Our objectives for reviewing equipment controls and procedures were to follow up on the prior audit finding concerning the completion of an annual physical inventory and to determine whether

- equipment policies and procedures were adequate,
- equipment information was properly recorded in the Property of State of Tennessee listing (POST),
- reported lost or stolen equipment had been removed from POST, and
- lost or stolen equipment was reported timely to the Comptroller of the Treasury.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's policies and procedures regarding equipment. We tested a nonstatistical sample of equipment from POST to determine whether the equipment information was properly recorded including state tag number, description, location, and serial number. In addition, a nonstatistical sample of equipment items reported to the Comptroller of the Treasury as being lost or stolen was selected to determine whether the equipment items had been removed from POST and reported timely to the Comptroller. We also discussed with management and reviewed supporting documentation to determine if the annual physical inventory had been completed timely.

Based on our interviews and review of supporting documentation, we determined that equipment policies and procedures are adequate. Based on our testwork, equipment information is properly recorded in POST for state tag number, description, location, and serial number except as noted in a separate letter to management. However, as discussed in finding 2, we determined that equipment purchased with grant funds was not properly recorded in POST. Also, based on testwork performed, reported lost or stolen equipment items were removed from POST and reported timely to the Comptroller of the Treasury. We also determined that the prior annual physical inventory finding had been resolved.

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## **PAYROLL**

The objectives for our review of controls and procedures over payroll were to determine whether payroll costs were charged to the proper grant, allocated properly, adequately supported, and properly computed.

We interviewed key departmental personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payroll. We tested nonstatistical sample payroll transactions to determine if payroll costs were charged to the proper grant, properly allocated, adequately supported, and properly computed.

Based on our interviews, review of supporting documentation, and testwork, we determined that controls appear adequate. We also determined that payroll costs were charged to the proper grant, adequately supported, properly computed, and properly allocated.

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## **SPECIAL INVESTIGATION**

The Department of Labor and Workforce Development brought to the attention of the Division of State Audit the possibility of overbillings by two of its contractors. As discussed in finding 3, we noted that the department had not appropriately monitored the activities of two Information Technology Professional Services (ITPRO) contractors who had been hired in the information systems area. In April 2003, the Comptroller of the Treasury issued a special report titled "Issues Related to Office of Information Resources' ITPRO Contracts." That report stated

that both contractors admitted that they overbilled the department for hours worked. The actual amounts of overbilling are still being assessed, and a subsequent report will follow.

**3. The department did not appropriately monitor the activities of two Information Technology Professional Services contractors**

**Finding**

The Department of Labor and Workforce Development did not appropriately monitor the activities of two Information Technology Professional Services (ITPRO) contractors who had been hired by the department in the information systems area. Both contractors, who were working on the department's Case Management and Activity Tracking System (CMATS), admitted that they had overbilled the department when questioned about their time billings by the auditors. One of the contractors was a project manager, and the other was a database administrator. The Division of State Audit is currently reviewing their billings, and a subsequent report will be issued when that review is completed.

The objective of the ITPRO contract is to provide state agencies with qualified Information Technology professionals to perform software programming, software system modifications, and database administration services. Through the ITPRO contract between the Department of Finance and Administration and various vendors, state agencies obtain qualified professionals (contractors) by providing a Statement of Work to the vendors, receiving and evaluating vendor-provided information, and selecting the contractors. The contractors are employees of the vendors, not the state. However, the contractors typically work in state Office buildings during state working hours alongside state employees and under the supervision of state supervisors.

A review of internal controls related to two ITPRO contractors utilized by the department for its CMATS project disclosed that the ITPRO contractors were not appropriately monitored. The departmental employee who supervised their work and signed their time sheets acknowledged that he provided little oversight because the two contractors were responsible for a major system development effort, they were the experts in the areas of project management and database administration, and the system needed to be developed and implemented quickly. The contractors were authorized, and were expected, to work the hours necessary to complete their tasks. As trusted members of the CMATS development team, they were authorized to work whatever hours were necessary to complete the project, and the expectation was that they would only bill for their hours actually spent working on CMATS. The department did not establish time-in and time-out logs and also did not establish any parameters related to work that occurred off-site or outside the normal work week. None of the controlling documents related to the ITPRO contract contained any specifications related to hours of work, place of work, or authorization for overtime work or work off-site. In addition, the department did not place in operation a routine monitoring system to determine when the contractors were working on department matters. Based on presently available information, the contractors took advantage of the lack of effective monitoring and improperly inflated their work hours.

## **Recommendation**

The Commissioner and the Director of Information Systems should ensure that the activities of ITPRO contractors are appropriately monitored. Specifically, the department should establish written requirements related to hours of work, place of work, and authorization for overtime work and off-site work. These requirements should be documented in a Statement of Work, a Memorandum of Understanding, or other controlling documents. The department should implement time-in and time-out logs and other appropriate forms of documentation of work performed. In addition, the department should develop routine monitoring procedures, such as reviewing computers used by the contractors, to obtain evidence of their work activities.

## **Management's Comment**

We concur. The two contractors mentioned in the report were treated as trusted members of management and given greater latitude than the department's other ITPRO contractors. We will develop written guidelines to govern the department's use of contractors to improve controls over them. Other contractors who work for the department have designated work hours and do sign in and out each work day. Their overtime is pre-approved to perform specific tasks, and the contractors do not perform work at home unless they are called about a specific problem.

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## **OBSERVATIONS AND COMMENTS**

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

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by each June 30. The Department of Labor and Workforce Development filed its compliance report and implementation plan on June 27, 2002.

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.

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

Section 4-4-123, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Labor and Workforce Development filed its compliance report and implementation plan on June 24, 2002.

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.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Department of Labor and Workforce Development divisions and allotment codes:

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