

Department of Human Services

**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 Virginia T. Lodge, Commissioner
Department of Human Services
400 Deaderick Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Human Services for the year ended June 30, 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/cj
02/105



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

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

We have reported other less significant matters involving the department's internal controls and instances of noncompliance to the Department of Human Services' 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 Human Services
For the Year Ended June 30, 2002

AUDIT SCOPE

We have audited the Department of Human Services 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 Food Stamps, State Administrative Matching Grants for Food Stamp Program, the Child and Adult Care Food Program, Rehabilitation Services–Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families, Child Support Enforcement, the Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund. In addition to those areas, we also determined the adequacy of management’s controls and compliance with state policies, procedures, laws, and regulations in the areas of inspection of licensed child care providers, use of contract employees, equipment, internal audit, the Financial Integrity Act, the Department of Finance and Administration’s guidelines for uniform monitoring of subrecipients, investigation of hotline calls, Title VI of the Civil Rights Act of 1964, and Title IX of the Education Amendments of 1972. 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

The Federal Cash Transaction Report Did Not Reconcile With the Schedule of Expenditures of Federal Awards, and Requests for Federal Funds Were Not Always Based on Actual Federal Disbursements

The amounts reported as disbursements on the Federal Cash Transaction Reports prepared by

the department are not reconciled with the accounting records. Furthermore, such amounts did not reconcile with the amounts shown on the Schedule of Expenditures of Federal Awards (SEFA). In addition, the department does not always calculate federal receipt requests based on actual federal disbursements (page 13).

Inadequate Documentation of Eligibility Information for Temporary Assistance for Needy Families and Food Stamps*

The department does not maintain adequate enrollee eligibility documentation for the Temporary Assistance for Needy Families program and Food Stamps (page 17).

The Department Did Not Comply With Subrecipient Monitoring Policy

The department did not identify and report all if its subrecipients to the Department of Finance and Administration as required by Policy 22 (page 20).

Inadequate Procedures for Ensuring That Vendors and Subrecipients File a Single Audit Report*

The department has not adequately maintained a listing of vendors and subrecipients who are required to file a single audit report with the department (page 23).

Temporary Assistance for Needy Families Assistance Is Not Being Reduced as Required by Federal Regulations*

The department did not reduce assistance to recipients who failed to cooperate with child support requirements (page 25).

Noncompliance With Child Support Enforcement Procedures **

The department did not comply with program requirements relating to medical support and paternity establishment. Also, administrative fees paid to the state were not properly reported on the department's federal quarterly report (page 27).

Security Over Computer Systems Needs Improvement**

Controls over access to the Automated Client Certification and Eligibility Network of Tennessee (ACCENT), the Tennessee Child Care Management System (TCCMS), and the Tennessee Rehabilitation Accounts

Client Tracking System (TRACTS) were inadequate (page 30).

Resource Control Access Facility (RACF) Security Needs Improvement

Contract users who had terminated employment possessed active RACF privileges (page 32).

Alleged Employee Fraud Not Reported to the Comptroller of the Treasury

The Director of Program Integrity did not notify the Comptroller of the Treasury about the department's knowledge and subsequent investigation of three employees for possible fraud. One employee continued to be paid after termination (page 34).

The Department Received Advertising Services Without Going Through the Required Procurement Process

The Department of Human Services improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Inc. This action circumvented the required competitive procurement process (page 35).

For as Long as Seven Years, the Department Used Contract Employees, Resulting in Significant Fiscal and Legal Issues

The department used contract workers instead of hiring employees to implement federal programs. However, there is no evidence that management considered or compared the costs associated with this method of obtaining "employees" with any alternative methods (page 38).

**Comptroller Hotline Call Investigations
Have Not Been Reported as Required by
State Law**

A written report has not always been submitted to the Comptroller of the Treasury outlining the findings of investigations and any remedial action taken on hotline calls (page 43).

**State Law Title VI and Title IX
Requirements Were Not Complied With**

The Department of Human Services' Title VI and Title IX implementation plan updates did not include the plans of the department's subrecipients, nor did the department submit a Title XI compliance report (page 45).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

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

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Audit Report
Department of Human Services
For the Year Ended June 30, 2002

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Department of Human Services For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

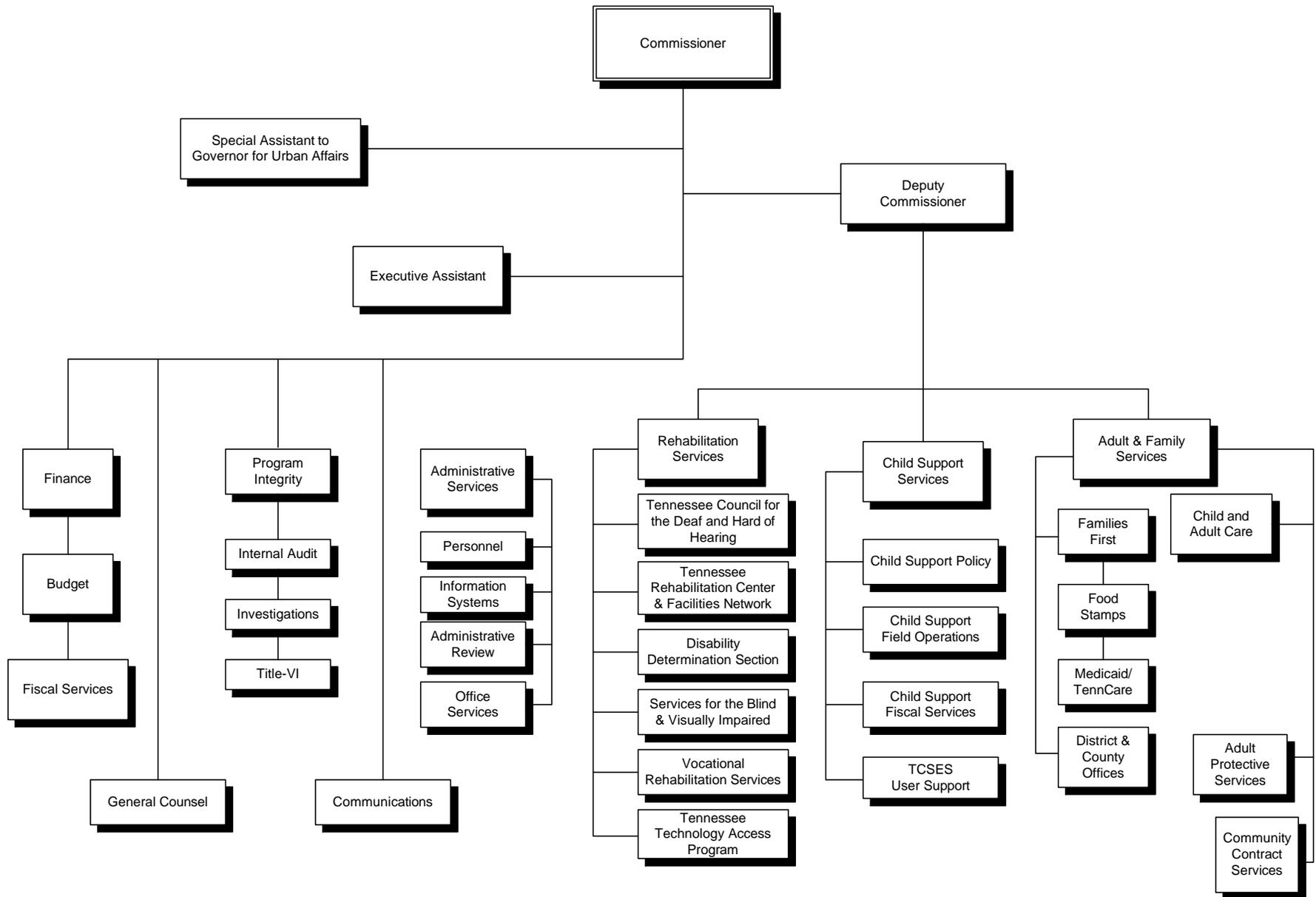
The mission of the Department of Human Services is to provide an effective system of services for disadvantaged, disabled, and vulnerable Tennesseans to improve their quality of life. The department works to serve, aid, and protect needy and vulnerable children and adults in ways that encourage personal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

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

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

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

Department of Human Services Organization Chart June 2002



AUDIT SCOPE

We have audited the Department of Human Services 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 Food Stamps, State Administrative Matching Grants for Food Stamps, Temporary Assistance For Needy Families (TANF), Child Support Enforcement, the Child and Adult Care Food Program, Rehabilitation Services–Vocational Rehabilitation Grants to States, the Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund. In addition to those areas, we also determined the adequacy of management’s controls and compliance with state policies, procedures, laws, and regulations in the areas of inspection of licensed child care providers, use of contract employees, equipment, internal audit, the Financial Integrity Act, the Department of Finance and Administration’s guidelines for uniform monitoring of subrecipients, investigation of hotline calls, Title VI of the Civil Rights Act of 1964, and Title IX of the Education Amendments of 1972. 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.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Human Services filed its report with the Department of Audit on July 31, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Human Services has corrected the previous audit findings concerning the Electronic Benefits Transfer Service Auditor Report not being obtained, inadequate recordkeeping on equipment being used in the Rehabilitation Services-Vocational program, DHS datasets not being protected by RACF security software, inadequate monitoring of Child Support Enforcement programmers’ conflicts of interest, insufficient inspections of licensed child care providers, and inadequate follow-up on hotline calls related to child care.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning maintaining adequate documentation to determine eligibility for recipients of Temporary Assistance for Needy Families (TANF) and Food Stamps, inadequate procedures for obtaining Single Audit reports from vendors and subrecipients, not reducing the TANF assistance to noncooperative participants, noncompliance with Child Support Enforcement procedures, and inadequate security over computer systems. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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

Our audit of the Department of Human Services is an integral part of our annual audit of the *Comprehensive Annual Financial Report* (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's 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 Human Services is also an integral part of the *Tennessee Single Audit*, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996 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 has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations, and
- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program.

We determined that the following areas within the Department of Human Services were material to the CAFR and considered major for the *Single Audit Report*: Food Stamps, State Administrative Matching Grants for Food Stamp Program, the Child and Adult Care Food Program, Rehabilitation Services–Vocational Rehabilitation Grants to States, Temporary Assistance For Needy Families (TANF), Child Support Enforcement, the Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund.

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

We have audited the basic financial statements of the State of Tennessee for the year ended June 30, 2002, and have issued our report thereon 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 material weaknesses resulting from this audit. These reports also include instances of noncompliance, one of which resulted in a qualified opinion on the department's compliance with requirements regarding Program Income that are applicable to the Child Support Enforcement program.

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

- The department's Federal Cash Transaction Report did not reconcile with the Schedule of Expenditures of Federal Awards, and requests for federal funds were not always based on actual federal disbursements, requiring the state to pay interest to the federal government on excessive receipts
- The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps
- The department did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring
- The department does not have adequate procedures in place to ensure that vendors and subrecipients file a single audit report
- The department did not reduce the Temporary Assistance for Needy Families assistance for participants who failed to cooperate with child support requirements
- The department did not comply with child support enforcement procedures
- Security over computer systems needs improvement

- Security over RACF needs improvement
- Alleged employee fraud was not reported to the Comptroller of the Treasury, and one employee continued to be paid after termination
- The department received advertising services without going through the required bid process and inappropriately used a contract initiated by the Department of Economic and Community Development

In addition to the findings, other weaknesses have been reported to management in a separate letter.

MAJOR FEDERAL AWARD PROGRAMS

FOOD STAMPS/STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM

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

CHILD AND ADULT CARE FOOD PROGRAM

This program helps to initiate and maintain nonprofit food service programs for eligible children and adults in nonresidential day care settings.

REHABILITATION SERVICES–VOCATIONAL REHABILITATION GRANTS TO STATES

Title I of the Rehabilitation Act of 1973 authorized the Vocational Rehabilitation program. This program provides assistance to individuals with disabilities, to help them prepare for and engage in gainful employment.

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

The program provides temporary assistance to needy families with children in order to end dependence of needy families on government benefits.

CHILD SUPPORT ENFORCEMENT

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

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

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

Our audit of these programs included 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
- Matching, Level of Effort, Earmarking, Period of Availability
- Procurement and Suspension and Debarment
- Program Income
- Federal Reporting
- Subrecipient Monitoring
- Special Tests and Provisions
- Cost Allocation
- Schedule of Expenditures of Federal Awards
- Management Information Systems
- Fraud Reporting
- Purchases From an Advertising Agency

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 the control environment of the department, the procedures used by the organization to assess risk, the information and communications activities used by management, and the monitoring activities used by management. We interviewed key program employees and reviewed organization charts, descriptions of duties, responsibilities of each division, applicable policies and procedures, and reports used by management to assess performance. We did not note any significant deficiencies in management's general controls as they relate 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 charged to the proper federal grant and the proper grant program.

Supporting documentation for all significant items and sample transactions of the major federal programs were reviewed and tested to determine if funds were used for allowable purposes. The significant items were also tested for compliance with grant requirements and appropriate recording to the proper grant program. We performed analytical reviews of payroll expenditures charged to each major program to determine if they were proper.

We determined in all material aspects that grant funds were spent for allowable activities in compliance with grant requirements and were charged to the proper federal grant and the proper grant program.

Cash Management

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

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

We determined that management had not always complied, in all material respects, with the State-Treasury cash management agreement as discussed in finding 1.

Eligibility

Our primary objectives for the applicable major federal programs were to determine if the department properly determined eligibility.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for eligibility and the agency program requirements for each applicable major program. We interviewed key department personnel to gain an understanding of the department's procedures. In those programs where the department determined program eligibility, we tested a nonstatistical sample of program participants to determine if the department had made an appropriate determination about eligibility. In those programs where subrecipients determined participant eligibility, we reviewed subrecipient monitoring working papers to determine if the monitors had done adequate testwork on participant eligibility.

Based on testwork, we concluded that the eligibility documentation on file for TANF and Food Stamp participants was inadequate as discussed further in finding 2.

Equipment

Our primary objective for the Rehabilitation Services-Vocational Rehabilitation Grants to States was to determine if the department complied with federal requirements dealing with equipment.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for equipment for the Rehabilitation Services-Vocational Rehabilitation Grants to States program. We interviewed key department personnel and reviewed applicable policies and regulations. We obtained a listing of all equipment assigned to this program and determined if all equipment costing at least \$5,000 had been inventoried at fiscal year end. We then tested a nonstatistical sample of equipment assigned to this program to determine if the information about this sample equipment in the state's equipment inventory system was accurate.

As a result of this testwork, it appears that the department complied with federal requirements that pertained to equipment.

Matching, Level of Effort, Earmarking, and Period of Availability of Federal Funds

Our primary objective for the applicable major federal programs was to determine if the department complied with federal requirements dealing with matching, level of effort, earmarking, and period of availability.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for matching, level of effort, earmarking, and period of availability of federal funds, and the agency program requirements for each applicable major program. We interviewed key department personnel to gain an understanding of the department's procedures and identified the key controls. We performed tests in each applicable major federal program to determine if the controls were being followed as described. To provide reasonable assurance that matching, level of effort, and earmarking requirements were met, we examined selected reports. We tested for period of availability compliance, where applicable.

Based on testwork performed, it appears that the department complied with federal requirements dealing with matching, level of effort, earmarking, and period of availability requirements.

Procurement and Suspension and Debarment

Our primary objective for the applicable major federal programs was to determine if the department complied with federal requirements dealing with procurement of goods and services and suspension and debarment.

We reviewed the OMB Circular A-133 *Compliance Supplement* for internal control and compliance requirements for procurement, and suspension and debarment and the agency program requirements for each applicable major program. We interviewed key department personnel to gain an understanding of the department's procedures and identified the key controls. We performed tests in each applicable major federal program to determine if the controls were being followed as described. We tested for procurement, and suspension and debarment compliance when we performed our expenditure testwork.

Based on interviews and testwork, it appears that the department complied with federal requirements dealing with procurement of goods and services and suspension and debarment.

Program Income

Our primary objective for the applicable major federal programs was to determine if program income was correctly identified, recorded, and used in accordance with the program requirements.

We reviewed the OMB Circular A-133 *Compliance Supplement* and program requirements, and we interviewed key department personnel. We performed tests in each applicable major federal program, and we reviewed the activity within each deferred revenue or contingent revenue account that contained program income.

Based on the testwork performed, we concluded that administrative fees paid to the state by noncustodial parents were not reported on the department's federal quarterly report as program income. This is discussed in finding 6.

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 reviewed the OMB Circular A-133 *Compliance Supplement*, and we asked management about the requirements and procedures for preparing, reviewing, and submitting applicable 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.

As a result of our testwork, we concluded that the department's federal reports did not always reconcile to the accounting records as discussed in findings 1 and 6. Also, as discussed in finding 6, administrative fees were not always properly reported on federal reports.

Subrecipient Monitoring

Our objective for the applicable major federal programs was to determine whether subrecipients were properly monitored to ensure compliance with federal award requirements.

We asked management about procedures for monitoring subrecipients and tested nonstatistical samples to determine if subrecipients were adequately monitored and if an audit in accordance with OMB Circular A-133 had been performed.

We determined that the department did not always have adequate procedures in place to ensure that a single audit report was received as discussed in finding 4. Also, as discussed in finding 3, the department has not always identified all of its subrecipients so that they can be adequately monitored.

Special Tests and Provisions

Specific requirements for special tests and provisions for applicable major federal programs were obtained by review of the OMB Circular A-133 *Compliance Supplement*; interviews with key employees; and review of laws, regulations, and the provisions of contract or grant agreements pertaining to specific programs. Where applicable, nonstatistical samples were selected and tested for compliance.

As a result of this testwork, we concluded that the department did not always comply with certain special provisions in the Temporary Assistance for Needy Families and the Child Support Enforcement program. This is explained further in findings 5 and 6.

Cost Allocation

Our objective in reviewing the department's cost allocation system was to determine if the plan was properly approved and if costs were being applied to the proper federal programs in accordance with the plan.

We interviewed key department management, obtained and reviewed the cost allocation plan, and reviewed procedures that were used to implement the plan. We tested a nonstatistical sample of expenditures to determine if costs were being allocated to the proper federal programs in accordance with the plan.

Based on our interviews, review of supporting documentation, and testwork, we determined that in all material aspects, the plan had been properly approved and expenditures were being allocated to the proper federal programs in accordance with the plan.

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 grant identification information on the Schedule of Expenditures of Federal Awards, and total disbursements were traced or reconciled to supporting documentation. Based on the testwork performed, we determined that, in all material aspects, the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

Management Information Systems

We reviewed the management information systems general and application controls of applicable major programs. Our review emphasized the following information systems: the Automated Client Certification and Eligibility Network of Tennessee (ACCENT), the Tennessee Child Support Enforcement System (TCSES), the Tennessee Child Care Management System (TCCMS), and the Tennessee Automated Claim Tracking System (TRACTS) and Resource Access Control Facility (RACF). Our objectives included determining if

- relevant policies and procedures were placed in operation;
- computer resources were planned, managed, and used effectively;
- an adequate business recovery plan had been implemented;
- user access to ACCENT, TCSES, TCCMS, TRACTS, and RACF was adequately controlled; and
- adequate controls were in place over ACCENT, TCSES, TCCMS, and TRACTS program changes.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over the systems. We documented our understanding of selected control procedures; determined that selected control procedures have been placed in operation; and verified the effectiveness of selected control procedures. We obtained and reviewed the department's three-year information systems plan and other departmental policies. We obtained system datasets of the security tables and performed computer-assisted analytical procedures on the levels of access provided to certain users. Our testwork resulted in two findings addressing security over computer systems and security over RACF as discussed in findings 7 and 8.

Fraud Reporting

Our objective was to determine if the department reported suspected fraud in compliance with state law.

We reviewed the applicable state laws and regulations. We interviewed key personnel to gain an understanding of the procedures used by management to ensure compliance. We obtained a listing of all employees who were terminated or placed on administrative leave during the audit period and determined through a review of available documentation the reason for the

leave or termination. For those employees that we determined were terminated or placed on leave because of fraudulent activity, we determined if the Comptroller of the Treasury was properly notified, if the notifications occurred timely, and if the final pay was calculated in accordance with state regulations. We concluded that the department had not complied with state laws and regulations. This is discussed further in finding 9.

PURCHASES FROM AN ADVERTISING AGENCY

Our objective in this area was to determine whether proper procedures were followed for obtaining advertising services.

We interviewed department personnel and discussed procedures used to obtain advertising services and we reviewed state purchasing regulations. We also traced or reconciled amounts paid to the advertising company to supporting documentation.

Based on our review and testwork, we concluded that payments made by the department traced or reconciled to invoices. However, the department circumvented state rules to obtain advertising services and inappropriately used a contract initiated by another department. This is discussed in finding 10.

Findings, Recommendations, and Management's Comments

- 1. The department's Federal Cash Transaction Report did not reconcile with the Schedule of Expenditures of Federal Awards, and requests for federal funds were not always based on actual federal disbursements, requiring the state to pay interest to the federal government on excessive receipts**

Finding

The amounts reported as disbursements on the Federal Cash Transaction Reports prepared by the Department of Human Services (DHS) are not reconciled with the accounting records. Furthermore, such amounts did not reconcile with the amounts shown on the Schedule of Expenditures of Federal Awards (SEFA). In addition, the department does not always calculate federal receipt requests based on actual federal disbursements.

On a quarterly basis, the federal Department of Health and Human Services, Division of Payment Management, electronically sends DHS a Federal Cash Transaction Report for several of the department's federal programs. This report contains the cumulative receipt information from the inception of the grant through the end of the current quarter and the cumulative disbursement information from grant inception through the end of the previous quarter. DHS is required to provide, by grant number, the cumulative quarter-to-date disbursement totals. When the disbursement totals shown on the Federal Cash Transaction Report for the year ended June 30, 2002, were compared to the Schedule of Expenditures of Federal Awards, significant variances were noted in the following federal programs: the Child Care and Development Block

Grant (CCDBG), Refugee and Entrant Assistance_State Administered Programs (REA), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF), the and Child Support Enforcement Program (CSEP). Details about the variances are displayed below.

Federal Program	Federal Cash Transaction Report	Schedule of Expenditures of Federal Awards	Variance
CCDBG	\$28,844,067.00	\$48,460,739.00	(\$19,616,672.00)
REA	\$1,262,628.00	\$1,104,117.73	\$158,510.27
CCDF	\$66,390,225.00	\$45,984,860.15	\$20,405,364.85
TANF	\$135,240,082.00	\$120,378,382.41	\$14,861,699.59
CSEP	\$27,314,590.00	\$28,717,338.67	(\$1,402,748.67)

It appears, based on discussions with management, that total disbursements reported on the Federal Cash Transaction Report are incorrectly based on estimates of the federal share of actual disbursements. The amounts requested should have been based on actual federal disbursements. In some cases, information in the state's accounting system does not reflect the correct federal matching percentages; and the department does not allocate administrative costs in a timely manner. For these reasons, the department is not in compliance with the federal reporting requirements as it they apply to these programs and this report.

The Department of Finance and Administration's *Year-End Accounting Procedures Manual* contains instructions for the preparation of the Schedule of Expenditures of Federal Awards. Part III, B, requires a reconciliation of disbursements per the schedule to the federal financial reports. The department has not performed this reconciliation for this report.

OMB Circular A-133, Part 3, "Compliance Requirements," Subpart L, Reporting, states, "Each recipient must report program outlays . . . on a cash or accrual basis. . . ."

As a result of the problems mentioned above, federal receipts in some programs were significantly greater than federal disbursements supported by the accounting records. For example, federal receipts for the Temporary Assistance for Needy Families, Social Services Block Grant, and Refugee and Entrant Assistance-Discretionary Grants exceeded disbursements by \$15,843,559.68 for the fiscal year ended June 30, 2002. This amount was recorded as deferred revenue in the accounting records. Also, in the Food Stamp program, for the federal fiscal year ended September 30, 2001, receipts exceeded disbursements by \$1,154,841.32. When federal receipts exceed federal disbursements, the state is not in compliance with federal cash management principles and at times is required to pay the federal government interest on the excessive receipts.

Recommendation

The Commissioner should ensure that amounts shown on federal reports reconcile to the Schedule of Expenditures of Federal Awards. Also, the federal receipt requests should be based on actual cash disbursements. This will require that the department enter into the state's accounting system the proper federal matching percentages for each grant and make a timely reallocation of related administrative costs.

Management's Comment

We do not concur. The department always reconciles the Schedule of Expenditures of Federal Awards (SEFA) to the appropriate federal expenditure reports. We are not aware of any federal requirement to reconcile SEFA to the Federal Cash Transactions Report, nor do we believe that the Department of Finance and Administration's *Year-End Accounting Procedures Manual* requires a reconciliation of the SEFA to the Federal Cash Transactions Report.

The Federal Cash Transactions Report must be submitted each quarter prior to the completion of all federal expenditure reports and before a reconciliation of disbursements reported on the federal expenditure reports to cash drawdowns is completed. Once the final expenditure report and cash analysis are completed, the amounts on the SEFA, federal expenditure reports, and Federal Cash Transactions Report will be reconciled.

We also do not concur that our draws of federal funds are not based on actual disbursements. We draw federal funds daily based on the Daily Grant Drawdown Report in the State of Tennessee Accounting and Reporting System (STARS). Each of these draws is supported by actual disbursements. At the end of each quarter and fiscal year, an analysis is completed of each disbursement. Based on this analysis, adjustments to the funding will be made to ensure compliance with maintenance-of-effort (MOE) and matching requirements. We are required by statute to complete this analysis. The Block Grant Review Act of 1996 (Public Chapter No. 1062, Section 3.a) states that each state agency shall make decisions concerning block grant funding that will minimize harmful impacts to the program and the state's economy.

MOE requirements are different from traditional matching requirements; there is no "correct" or "proper" federal matching percentage. We must ensure that we spend a set amount of non-federal funds in order to maintain eligibility to receive the federal funds. In order to satisfy the MOE, expenditures made by multiple allotment codes within the department, other state agencies, or contract agencies outside of the state may be pooled. This makes it impossible to establish a daily drawdown percentage that will exactly ensure we meet our MOE requirements for the fiscal year.

We also do not concur with the assertion that costs are not allocated timely. The department is currently using a cost allocation plan approved by the U.S. Department of Health and Human Services. This approved plan includes the use of quarterly allocations. Any allocation made more frequently than quarterly would necessitate estimations based on a previous quarter. We do not feel the use of estimates in order to allocate on a more frequent

basis would improve our federal reporting process. We feel a quarterly allocation of costs is logical in that most of our federal reports are due on a quarterly basis.

Rebuttal

The Office of Management and Budget Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C-*Post Award Requirements*, Sec. 20 *Standards for Financial Management Systems*, (a), requires each state to account for grant funds in accordance with the same state laws and procedures that the state uses for its own funds. The process should be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions of applicable statutes. While the reconciliation process can be, at times, very time consuming, it appears that if the reconciliation can be done for the other reports, it can also be done for the Federal Cash Transaction Report. In the particular quarter that was tested, the Federal Cash Transaction Report was submitted 14 days after the Federal Financial Status Report. It would appear that if the necessary information was available for the Federal Financial Status Report, it was available for the Federal Cash Transaction Report.

With regard to the Department of Finance and Administration's *Year-End Accounting Procedures Manual*, the instructions for preparing the Schedule of Expenditures of Federal Awards specifically state, "In any instances where disbursements per the schedule(s) do not agree with federal financial reports, reconciliation must also be submitted."

Although the draws may be based on actual disbursements, the amount of federal funds drawn is based on management's application of various reallocations and assumptions about federal matching percentages which have been applied to actual disbursements. The testwork results indicated that management's applications resulted in drawdowns which were significantly different from the actual amounts ultimately eligible for federal funding. While an "exact" matching percentage may not be practicable, the department should be able to calculate a closer approximation of the final amount than what was used to determine the amounts on the cash transaction report.

The recommendation that timely reallocations of administrative costs be made did not recommend that drawdowns be based on or made in violation of the currently approved cost allocation plan. However, the Department of Finance and Administration's Policy 20 requires recoveries of indirect costs on a timely basis. Although the department is exempted from monthly reallocation, it is not exempted from the 30-day time limit for preparing the reallocation journal voucher. The quarterly reallocations should be determined within 30 days of the end of each quarter.

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

Finding

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

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

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

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few

employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

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

For the Food Stamp program, the department relies on quality control sampling to monitor the accuracy of information in ACCENT and eligibility determination. Quality control personnel select samples monthly of persons eligible for Food Stamp benefits. This unit verifies the accuracy of information in ACCENT with outside sources. It also selects a sample of denied cases and determines if the applicant was appropriately denied. Sample sizes are approved by the federal government, and the samples are selected randomly. Federal monitors are also sent a sample of cases that have been reviewed by the quality control unit. However, certain types of cases are not tested. These consist mainly of noncooperation cases where the enrollee either fails or refuses to cooperate or the department is unable to locate the individual. If one of these cases is selected for inclusion in the sample, it is replaced by another case. The case is investigated, but it is not considered in the calculation of the error rate of the sample. For the period of October 2001 through March 2002, the quality control unit selected a total of 592 cases for review, and 72 of these cases (12%) were replaced with another case because the quality control unit could not obtain enough information to determine whether the program participant was eligible. Excluding those cases from the error rate of the review could affect the results. For example, the error rate could be higher or lower based upon the results of the noncooperation cases.

A sample of cases tested by the quality control unit was reviewed to determine if the information documented in the quality control case files supported the reviewer's conclusions about the eligibility of these cases. No problems were noted.

The department contracts with the University of Tennessee to review active TANF cases on a continuing basis. On a monthly basis, DHS Information Systems personnel randomly select cases for review by the University of Tennessee. This testwork consists only of determining if the caseworker properly determined eligibility and benefit amounts based on the information in ACCENT. There is no attempt made to determine the accuracy of the information in ACCENT, and this testwork is not reviewed by federal monitors as with the Food Stamp program.

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

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the “paperless” aspects of the system,
- d. the system has been in place since 1992 without any indication from the Departments of Health and Human Services and Agriculture that the process in place was not adequate to meet federal requirements, and
- e. the State Attorney General issued an opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management’s arguments are not unreasonable. However, we believe that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the “paperless” system for the following reasons:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information;
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations, and the system does not include all enrollees in the population sampled;
- c. DHS has not been able to produce evidence that the federal Department of Health and Human Services and the Department of Agriculture specifically approved the “paperless” aspects of the system;
- d. the federal Department of Health and Human Services and the Department of Agriculture have not specifically stated that the process in place is adequate to meet federal requirements; and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Food Stamp and TANF program’s, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the department cannot ensure that the information entered into ACCENT is accurate and TANF and Food Stamp enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

Recommendation

The Commissioner should institute procedures which ensure that the department keeps documentation of the information entered into ACCENT that is used to determine eligibility for TANF and Food Stamps or obtain explicit approval from the appropriate federal authorities for maintaining the “paperless” system.

Management’s Comment

We do not concur. As stated in the prior year audit response, we feel that the ACCENT system provides adequate documentation for the eligibility process in the TANF and Food Stamp programs.

DHS received the major portion of funding for ACCENT from the federal funding agencies to construct this system. ACCENT was certified to meet the federal requirements of FAMIS (Federally Approved Management Information Systems). In addition, the “paperless” aspect was approved by the U.S. Department of Agriculture (USDA), after a review by the USDA Office of General Counsel found that the process met the provisions under the federal law. Also, the Attorney General for the State of Tennessee opined that the paperless system met the program and state requirements.

We understand that our objection to last year’s finding is still in the hands of the U.S. Department of Health and Human Services, Office of Inspector General, for resolution.

Rebuttal

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

3. The department did not comply with the Department of Finance and Administration’s Policy 22, Subrecipient Monitoring

Finding

The department did not identify and report all of its subrecipients to the Department of Finance and Administration (F&A) as required by Policy 22. The Division of Rehabilitation

Services has grant agreements with city and county school systems, and certain other quasi-governmental agencies across the state for the provision of vocational rehabilitation services to individuals with disabilities. During the fiscal year ended June 30, 2002, the department incurred expenditures of over \$4,440,000. However, the department did not include these subrecipients in its annual monitoring plan as required by F&A Policy 22.

Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. The policy requires the department to submit an annual monitoring plan to the Division of Resource Development and Support (RDS) in the Department of Finance and Administration for review, comment, and approval by September 30 of each year. This plan should identify all subrecipients to be monitored, describe the risk criteria utilized to select subrecipients for monitoring purposes, identify full-time equivalents dedicated to monitoring activities, and include a sample monitoring guide. The department's plan did not identify the Division of Rehabilitation Services' subrecipients and document other plan requirements for the audit period.

In addition, the department is required to submit an annual report summarizing its monitoring activities to the RDS by October 31 of each year. This report was submitted but did not include the subrecipients of the Division of Rehabilitation Services.

By failing to include all subrecipients in the department's annual monitoring plan and annual report, the department is not complying with F&A Policy 22 and is inadequately monitoring its subrecipients.

Recommendation

The Commissioner should ensure that the required annual monitoring plan is submitted to the Division of Resource Development and Support in the Department of Finance and Administration by September 30 of each year and that the plan includes all the required information. Also, the Commissioner should ensure that the annual report summarizing the department's monitoring activities is complete and submitted by October 31 of each year.

Management's Comment

We do not concur. The department made a determination that the Transition School to Work (TSW) contracts/grants were not subrecipients based on a review of the criteria in Section 10 of the Department of Finance and Administration Policy 22 guidelines. Based on the criteria in Section 10, the TSW contracts/grants were identified as having a vendor relationship rather than a subrecipient relationship with the contracted entities. Rationale for this determination included the fact that the Rehabilitation Services-Vocational Rehabilitation Basic (110) Support Program funding is used to match the money provided by the local school systems. The Rehabilitation Services-Vocational Rehabilitation Basic (110) Support Program is the grant award designated for use by State Vocational Rehabilitation agencies in providing vocational rehabilitation services to individuals with disabilities, to prepare for and engage in gainful

employment. These funds are not designated specifically for Transition School to Work programs and can in fact be dispersed, within federal guidelines, at the discretion of the state agency. Should the state agency no longer fund these contracts/grants, there would be no corresponding decrease in funding from the federal government.

The Department of Finance and Administration referenced OMB Circular A-133, Section .210 relative to the definition of Subrecipients and used the characteristics in this document to distinguish a subrecipient from a vendor. The definition of subrecipients and characteristics to distinguish a subrecipient from a vendor in F&A Policy 22, Section 10 are as follows:

Subrecipient Characteristics:

- Determines who is eligible to receive state and/or federal financial assistance available through the program administered

Vocational Rehabilitation (VR) Analysis: The TSW contracts/grants are for the provision of services for applicants or clients of the Division. Individuals utilized in these contracts/grants are not permitted to determine eligibility for services. Eligibility decisions are the sole function of the state agency.

- Has its performance measured against whether the objectives of the state and/or federal program are met

VR Analysis: Individuals utilized in the TSW contracts/grants have no authority for programmatic decision-making. They provide services relative to a client's plan for employment (IEP), but these plans must also be approved by state agency staff. The services they provide are ancillary to the general rehabilitation program and their services could be subsumed by rehabilitation staff should the need arise.

- Has responsibility for programmatic decision making

VR Analysis: The TSW contracts/grants provide services based upon the goals in the respective contracts rather than established state/federal goals. TSW staff goals are evaluated by a review conducted by their hiring authority.

- Has responsibility for adherence to applicable state and/or federal program compliance requirements

VR Analysis: The TSW program casework, which requires state agency review, is the responsibility of the state agency staff should compliance issues arise. There is no penalty or consequence to the TSW program. Any consequences are the responsibility of the state agency. Their services are ancillary to the operation of the state program.

- Uses state and/or federal funds to carry out a program of the state as compared to providing goods or services for a program of the state

VR Analysis: The TSW contracts/grants provide services for the agency. They are not carrying out the program of the state (as designated by the use of 110 funds). They are providing a service to assist the state agency in providing the overall program of services. They are in no way subject to the compliance requirements of 110 funding by the Rehabilitation Services Administration.

Rebuttal

The Department of Finance and Administration’s Policy 22 states, “In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all subrecipient characteristics will be present.” Based on a review of the grant agreement and discussions with management, the following was noted:

- The participating grantees must provide a match in funding.
- There was no attempt to bid out the services provided under these contracts.
- The service being provided by the grantees participating in this program is not something that the grantees provide on their own.
- The records of the grantees shall be maintained in accordance with the *Accounting Manual for the Recipients of Grant Funds in the State of Tennessee*.
- The grantee’s activities are subject to monitoring by the state.

As a result, it would appear that a subrecipient relationship exists in the grant agreements for the provision of vocational rehabilitation services to individuals with disabilities. However, the department should confer with the Department of Finance and Administration with regard to the applicability of Policy 22 to these grantees.

4. The department still does not have adequate procedures in place to ensure that vendors and subrecipients file a single audit report

Finding

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

Management concurred with the prior audit finding and outlined a number of ways in which it intended to correct this finding. Management stated that it intended to fill a position that would be responsible for updating and monitoring the audit report tracking system. It also planned to update the database and contact subrecipients to have them submit the required audit reports to the Internal Audit section. Internal Audit would then be responsible for distributing the audit reports to the fiscal and program staff who would be responsible for reviewing the reports and following up on the corrective actions on any findings. Management also stated that the tracking system should be updated by June 30, 2002. In March 2001, the Internal Audit staff began the process of recording the receipt of single audit reports in the tracking system. However, no other updating or monitoring of the system has been put in place. Also, there has been an inadequate effort by the department to determine all of the organizations that are required to submit a single audit report to DHS, and no organizations have been contacted with regard to this report. As a result, problems still persist.

Testwork was performed on 25 organizations that received at least \$300,000 in funding from DHS. Seventeen of these organizations were subrecipients, and eight were vendors. Fourteen of the 25 tested (56%) had not submitted a single audit report to the department for fiscal year 2001, and the department had not contacted these organizations. Six of the 14 were subrecipients (43%) and 8 were vendors (57%).

The Internal Audit Section maintains an EXCEL spreadsheet to track the single audit reports. Eight of the 25 organizations tested (32%) were not in the EXCEL spreadsheet. Seven were vendors, and one was a subrecipient. Also, there were two subrecipients that had submitted a single audit report; however, the report receipt date was not shown in the EXCEL spreadsheet.

The department is responsible for ensuring that the subrecipient submits a single audit report. Also, contracts with certain vendors contain a clause requiring them to obtain a single audit report. As a result, the department should ensure that it receives and reviews these reports to determine compliance with federal requirements. If the report contains findings, the department should ensure that the subrecipient or vendor takes prompt corrective action.

OMB Circular A-133 requires that the department monitor subrecipient and vendor activities to provide reasonable assurance that subrecipients and vendors administer the federal awards in compliance with federal requirements. OMB A-133 also requires the department to ensure that required audits are performed and that there is prompt corrective action on any findings. The department cannot determine subrecipient and vendor compliance with applicable regulations if the required audits are not obtained and reviewed. Furthermore, funds could be used for objectives not associated with the grant, and subrecipient errors and fraud could occur and not be detected.

Recommendation

The Commissioner should establish procedures which ensure that the list of vendors and subrecipients requiring a single audit is properly maintained. These procedures should ensure that the any tracking system includes all organizations required to submit a single audit report.

The tracking system should also be monitored and updated when reports are received, and if the single audit report is not received, the vendor or subrecipient should be contacted. Also, reports should be reviewed by appropriate personnel in a timely manner, and program directors should ensure that prompt corrective action has been taken on all findings.

Management's Comment

We concur. The department has not completely resolved the issues related to single audit reports and our subrecipients. We have made significant progress in resolving this issue since last year. The department has identified all subrecipients receiving more than \$300,000 from the department and has loaded this information into our audit report tracking system. The system also has been updated to reflect the submission of audit reports from a number of our subrecipients. We plan to work with Municipal Audit to identify those entities that might exceed the \$300,000 threshold because of funding from additional state agencies. We concur that follow-up phone calls have been made to a limited number of subrecipients.

The resolution of the single audit report issue will continue to move forward as the department fully implements the plan outlined in the previous report. The database will be fully populated with all subrecipients identified as requiring submission of a single audit report and the Office of Program Integrity will serve as the single point of contact for the collection of these reports. Failure to receive an audit report will initiate action by the Office of Program Integrity to contact the subrecipient. The audit reports will be reviewed and forwarded to the appropriate department staff for resolution of any shortcomings identified.

5. The Department of Human Services did not reduce Temporary Assistance for Needy Families assistance for participants who failed to cooperate with child support requirements

Finding

As noted in the prior audit report, the department did not comply with federal regulations by reducing the assistance to recipients of Temporary Assistance for Needy Families (TANF) who failed to cooperate with child support requirements. Temporary Assistance for Needy Families is a federal program established for the purpose of providing time-limited assistance to needy families with children. The Department of Human Services (DHS) administers the TANF program in Tennessee under the name Families First. One of the important features of this program is the requirement that the head of the household must cooperate with child support authorities. Management concurred with the prior audit finding. To remedy this problem, management stated that it would issue a formal memorandum to field workers reminding them of the cooperation requirement, and would issue a mandate to the field management staff to ensure that the staff understood the requirement. Notwithstanding these efforts, this problem still remains.

During fiscal year 2002, DHS issued child support “non-cooperation” letters on 2,116 cases. A sample of 66 of these cases was selected for testwork to determine if the TANF assistance related to the cases was reduced as a result of failure to comply with child support authorities. Of these 66 cases, 37 were determined to be applicable. Testwork on the 37 sample cases revealed that there was no reduction of benefits on any case for which child support “non-cooperation” letters were issued. *Code of Federal Regulations*, Title 45, Section 264.30(c)(1), requires that recipients of TANF benefits who do not cooperate with child support authorities shall be sanctioned by “deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance. . . .” As a result, questioned cost was determined to be \$4,469.50. The likely federal questioned cost associated with this condition could exceed \$10,000. *Code of Federal Regulations*, Title 45, Section 264.31(a)(3), further explains that the state may be penalized up to 5% of the State Family Assistance Grant for failure to substantially comply with this child support related requirement.

Failure to follow applicable federal regulations could result in undetected federal noncompliance as was shown in the cases described above.

Recommendation

The Commissioner should direct the Assistant Commissioner of Adult and Family Services to begin a review of the procedures used by field management staff to monitor the performance of their case workers and revise those procedures to ensure that Families First assistance is promptly reduced in cases of child support non-cooperation.

Management’s Comment

We concur. The department was unaware that the TCSES system was failing to correctly generate notification when there was an instance of child support non-cooperation until this same finding was brought to management’s attention last year. Since this notification was not always generated, the TCSES-ACCENT interface failed to pick up information related to participants who had been determined to be non-cooperative with the child support requirements. As a result, staff did not receive alerts, which would have notified them of the non-cooperation.

A memorandum was sent to the field on March 8, 2002, regarding the child support cooperation requirements and the problems with the interface. This memo advised staff to check TCSES prior to authorization of benefits to ensure the individual was in compliance with child support requirements. This was an immediate response to the FY01 audit finding.

The TCSES-ACCENT interface changes were made in July 2002, and alerts related to instances of non-cooperation with child support are now generated correctly. A memorandum dated July 31, 2002, was sent to the field advising them of this correction, and reminding them of their responsibilities when they are notified of a participant’s failure to comply with child support requirements. To make sure that staff are following prescribed policies and procedures when

there is an instance of child support non-cooperation, the Active Case Review process includes this as a mandatory part of each review. However, because the changes to the interface were not completed, and implemented, until July 2002, the problem still existed when the sample cases selected for the FY02 audit were reviewed.

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

Finding

As noted in the prior eight audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations. Management concurred with the prior audit finding and stated that it would emphasize compliance requirements at the quarterly administrators' meetings. Some of the weaknesses have been resolved; however, the following weaknesses still exist.

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

- a. Nine of the 25 medical support cases tested (36%) and 5 of the 25 child support obligation cases (20%) did not comply with review procedures. The *Code of Federal Regulations*, Title 45, Section 303.8 (2), states, "Not less than every three years, notify each parent subject to a child support order in the State of the right to request a review of the order, and the appropriate place and manner in which the request should be made." The length of time since the last review ranged from approximately 3 years to 13 years.
- b. One of the 25 medical support cases tested (4%) had medical insurance information in the case file that was not documented in TCSES. The *Code of Federal Regulations*, Title 45, Section 307.10(b)(14)(ii), states that the state's computerized support enforcement system must "use automated processes to assist the State in providing automated maintenance of case records for purposes of the management and tracking requirements." As a result of this omission in TCSES, court-ordered support information had not been obtained by the caseworker.
- c. Two of the 25 child support cases tested for paternity establishment (8%) had not been properly maintained. In one case, there was a mail message sent on July 11, 2002, indicating that the case had been closed in another state and asking for verification of this information. As of October 29, 2002, no follow-up had been done. In the other case, no follow-up had been done on a child support noncooperation letter dated December 15, 2001.

If a parent is not notified of the right to request a review of the court order, or information is not properly loaded into the TCSES system, caretakers and dependent children may be deprived of needed financial support, and the state's Child Support Enforcement Program may not be reimbursed for program expenditures. Failure to notify caseworkers when a custodial parent is not cooperating with the child support enforcement program could cause a custodial parent to receive TANF (Temporary Assistance for Needy Families) benefits to which the parent is not entitled. Also, untimely closing of cases creates unnecessary processing delays.

As noted in the two prior audit reports, the amount of undistributed child support collections reported in TCSES does not reconcile to the State of Tennessee Accounting and Reporting System (STARS) and the related federal Office of Child Support Enforcement quarterly collection report. TCSES is maintained by the maintenance contractor Accenture, formerly Andersen Consulting. However, due to problems with TCSES and Accenture personnel, data obtained from TCSES have been found to be inaccurate. Another reason for the lack of a reconciliation is that the contingent revenue account in STARS used to account for undistributed collections, is also used to account for interest earnings and administrative fees paid by non-custodial parents. In the prior audit report, management stated that the reconciliation would be completed by the end of September 2002. This has not been completed.

During this audit period, \$6,000,000 in administrative fees paid to the state by non-custodial parents were not reported on the department's federal quarterly report as program income and \$487,333.53 in interest earnings were not reported on the same federal report. Also, \$477,000 in system development costs that were paid to the Office for Information Resources, a division of the Department of Finance and Administration, were recorded as a reduction of the child support contingent revenue account instead of as an expenditure.

Recommendation

The Commissioner should require the Director of Child Support to ensure that custodial parents are notified timely of their rights to have a support order reviewed, information is properly entered into TCSES, cases are closed in a timely manner, and noncooperation letters are followed up on as required. The Commissioner should also assign someone to monitor the compliance of the Director of Child Support.

The Commissioner should ensure that the amount of undistributed child support collections reported in TCSES is reconciled to STARS and the applicable federal reports. A new deadline should be set for this completion. Also, interest revenue, program income, and expenditures should be properly reported and the contingent revenue account should only be used for undistributed child support collections.

Management's Comment

We concur. The audit report states that the department did not comply with child support enforcement in the prior eight audit reports. The department strives for 100% compliance in all

program activities, including child support enforcement. However, the likelihood exists that the goal of 100% compliance in all child support enforcement activities will not be routinely met.

The child support enforcement activities found out of compliance in the audit for FY 2002 are not, in all findings, the same activities found out of compliance for the audit for FY 2001. The audit report statement regarding non-compliance for eight prior audits could be misinterpreted. The finding regarding the parents right to a notice of review and the finding regarding the failure to follow-up on an interstate action sent to another state regarding case closure (even though similar, this differs from the FY 2001 audit finding that a request from another state was not responded to timely) were not found in the FY 2001 audit report. The audit report should distinguish between new and repeat findings.

- a. We concur. Information Memorandum IM-2001-01 was issued June 12, 2001 regarding issuing review and adjustment notices. The process described in this memorandum created an automated cycle within the Tennessee Child Support Enforcement System (TCSES) whereby the custodial and non-custodial parent would receive a notice every 36 months. It was determined during Technical Assistance Reviews conducted by program staff that TCSES could err in setting the due dates correctly to alert the case worker that a review for possible adjustment was due. A system task was initiated to correct this problem and will be implemented by June 2003. The Child Support Services Manual was updated December 2, 2002, with current review and adjustment procedures. Review and Adjustment policy and procedures are covered in new employee training.
- b. We concur. The automated National Medical Support Notice (NMSN) process was implemented in TCSES on September 23, 2002. Prior to implementation, the process was discussed with Child Support Administrators and Attorneys during the June 2002 meeting. The description of this process was provided to local staff by Information Memorandum IM-2002-69, dated October 24, 2002. The memorandum contained policy and procedures for the new process and instructions for using the new related forms including the National Medical Support Notice. The memorandum further includes descriptions of the TCSES screens that were modified, an explanation of the enhanced TCSES functionality, and information about administrative appeals on administrative medical support enforcement activities. The NMSN process automatically generates a notice to employers to enroll dependents in the employee's health insurance plan. TCSES documents and tracks the process with appropriate alerts to caseworkers. Technical Assistance Reviews (TAR) by state staff review local enforcement office operations, which includes medical support enforcement. Corrective action plans are required with follow-up. New employee training covers medical support enforcement.
- c. We concur. The training package for new employees was released in March 2002. It is a nine day training course that is required for all new child support employees. The session includes an interstate module that addresses the required time frames. In a number of areas, experienced employees have also participated.

In addition to staff members that have participated in new employee training sessions during the past year, special interstate training sessions have been delivered in four jurisdictions. The child support manual also includes chapters on interstate and case closure. This training will continue to be a part of our new employee training. Interstate process training is also offered as a special session to experienced staff. Interstate processes will also continue to be on occasion, a topic of administrator's meetings.

The child support manual has a policy that covers non-cooperation. The TAR conducted by state staff on local enforcement activities reviews this area for compliance and requires appropriate corrective action. The training package for new employees released in March 2002, addresses policy regarding this area. TCSES sends alerts to Families First caseworkers each time that a participant is non-cooperative with child support. The Families First and Child Support Programs coordinate this activity closely to ensure good cause and non-cooperation policies are appropriately applied.

The amount of undistributed child support collections reported in TCSES is now reconciled to the quarterly collection report that is sent to the federal office of Child Support Enforcement. Work is currently well underway to reconcile this amount to the State of Tennessee Accounting and Reporting System (STARS). We expect the reconciliation to be completed this calendar year.

In regard to program income not reported on the federal quarterly report of expenditures, we are aware of this problem and have discussed it with federal OCSE officials. Adjustments to the federal reports will be made in the near future and safeguards will be implemented to attempt to prevent this error from reoccurring.

Regarding the \$477,000 in system development costs paid from the contingent revenue account, this was an error due to an internal miscommunication.

In the future, program income will be properly reported and the contingent revenue account will only be used for undistributed collections once the above mentioned reconciliation is completed.

7. Security over computer systems needs improvement

Finding

As noted in the prior five audits, the Department of Human Services (DHS) does not have adequate controls over access to the Automated Client Certification and Eligibility Network (ACCENT). During the review for the fiscal year ended June 30, 2002, the auditors noted that security authorization forms were missing, not properly completed, or did not match the current access privileges of the users. The prior-year audit report contained a finding concerning discrepancies related to security over the agency's computer systems, notably that authorization

forms were discovered to be missing, incomplete, or inconsistent with the employees' actual access rights. During the current audit period, the same conditions were found to be present in the Tennessee Rehabilitation Agency Tracking System (TRACTS) and the Tennessee Child Care Management System (TCCMS).

Management concurred with the prior audit finding relating to ACCENT. Review during the current year revealed that the Security Focus Group had continued to work to assess the security environment and to attempt to revise and update the security policies and procedures followed by DHS personnel. Additionally, the consolidated security form created by the Security Focus Group has been implemented beginning with new users to the agency's systems, and the Security Focus Group is continuing work related to DHS security issues. However, additional effort is still needed in order to correct continuing weaknesses in ACCENT security along with the newly identified weaknesses in both TRACTS and TCCMS.

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

- Department personnel were unable to locate one of the 20 ACCENT User Authorization forms selected for testwork (5%).
- Seventeen of the 20 ACCENT User Authorization forms selected for testwork (85%) were not properly authorized by management.
- Department personnel were unable to locate 3 of the 19 TRACTS User Authorization forms selected for testwork (16%).
- Seven of the 19 TRACTS User Authorization forms selected for testwork (37%) were not properly authorized by management.
- None of the 19 TRACTS User Authorization forms selected for testwork (0%) specified the type of access requested by the user.
- Department personnel were unable to locate 3 of the 25 TCCMS User Authorizations forms selected for testwork (12%).

As noted in the prior audit, good security practices require an access authorization form be completed for each employee using departmental or state application systems. This authorization form should be authorized by the employee's management and should specify the employee's access authority. If the access privileges required by an individual legitimately change, a new authorization form should be completed prior to the changing of access rights by the security administration staff. All of the completed authorization forms should be maintained in a secure location by appropriate security administration personnel. The failure to prepare, collect, and maintain access authorization forms as suggested above increases the possibility that access to sensitive systems and information may be granted to ineligible individuals, and that authorization may be granted to employees in excess of what is warranted for their job responsibilities.

Recommendation

As noted in the prior five audit reports, DHS management should improve security for ACCENT. In addition, management should improve security in response to the newly identified weaknesses in the TRACTS and TCCMS systems. Users should be granted the appropriate level of system access based on their job responsibilities. Security authorization forms should be completed by management and maintained in a secure location. DHS management should monitor system security for ACCENT, TRACTS, and TCCMS and take appropriate action if problems are noted.

Management's Comment

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or terminating system access to staff and contractors that are under the department's control (including ACCENT, TCCMS, and TRACTS). The system logic will support user access based on pre-approved conditions for types of users. The system will maintain a history of the requests and access approvals.

8. Security over RACF needs improvement

Finding

The Department of Human Services (DHS) does not have adequate control over the Resource Control Access Facility (RACF) security system. RACF is the state mainframe security software, which is used to provide an initial level of access security before a user can access the department- or agency-level systems. During the review for the fiscal year ended June 30, 2002, the auditors noted that there were active RACF IDs for terminated DHS contractors, RACF User ID application forms were not properly authorized by DHS management, and RACF password intervals for high-level system users were not set at 30 days.

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

- Sixty-two contract users who had terminated employment possessed active RACF privileges.

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

Authorization forms were not properly authorized by management.

- Five of the 30 RACF User ID Application forms selected for testwork (17%) were not properly authorized by management.

User ID Application forms are required to be signed by the appropriate manager before the user is assigned a RACF user ID. Without duly authorized forms, a risk exists that a user may have access rights granted that were never approved by the appropriate supervisor. These access rights could be utilized by the user to perform unauthorized activity within the agency systems.

Password Intervals for high-level users are not set at 30 days.

- RACF passwords for high-level system users are not being changed every 30 days.

According to security standards issued by the Department of Finance and Administration's Office for Information Resources (OIR), "All passwords must be changed (as a maximum) every 90 days (30 for system administrators)." Failure to change passwords for privileged accounts on a more frequent basis increases the potential that a privileged account could be accessed by an unauthorized individual.

Recommendation

DHS management should ensure that RACF system IDs are promptly revoked upon the termination or transfer of the ID owner. Security administration should not rely upon the RACF system to automatically revoke the IDs after 30 days of inactivity, as the IDs could be appropriated and used by other parties within that time frame. Periodic review of vacant IDs should be performed to ensure that those IDs are not being misused.

RACF security administration staff should ensure that all RACF User ID application forms are properly authorized before assigning a RACF user ID. In circumstances where it is discovered that an existing user does not have the appropriate signed forms, replacement forms should be completed and fully authorized by the appropriate supervisor.

Additionally, RACF security administration staff should ensure that RACF password intervals are set at 30 days instead of the current 90-day intervals for high-level users in accordance with OIR's security standards.

Management's Comment

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or

terminating system access to staff and contractors that are under the department's control (including RACF). The system is also designed to help Systems and Program management identify RACF IDs that should be deleted upon termination of state employee or contractor.

We are in the process of changing the RACF password intervals to 30 days. We are expecting the change to be completed by March 2003.

9. Alleged employee fraud was not reported to the Comptroller of the Treasury, and one employee continued to be paid after termination

Finding

The Director of Program Integrity did not notify the Comptroller of the Treasury, as required by state law, about the department's knowledge of and subsequent investigation of three employees for possible fraud. The three employees were terminated during the year ended June 30, 2002, for gross misconduct; however, one of the three continued to be paid after termination.

The department's Director of Investigations alleged that two of the three former employees fraudulently obtained over \$40,000 from the State of Tennessee. These two cases have been turned over to the district attorney's office in the applicable county. The other former employee certified a person as eligible for program benefits when the person did not meet the state's residency requirements. As a result of this error, the department paid over \$5,600 to a person who was not eligible for family assistance. The former employee also admitted using this person's EBT card to make cash withdrawals and purchase groceries for the person; however, the former employee provided a written statement denying any benefit from these transactions. No further action was taken by the department. None of these cases were reported to the Comptroller of the Treasury until after inquiry by the auditors. Section 8-19-501, *Tennessee Code Annotated*, states,

It shall be the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.

However, according to the Director of Investigations, in cases where there is a loss of state funds, the Comptroller of the Treasury is not notified until the district attorney decides whether to seek a criminal indictment.

Also, the department continued to pay one of the three employees for two pay periods subsequent to termination. Upon inquiry by the auditors, the department found that the employee was overpaid \$2,387.95 for annual leave which should have been forfeited upon termination by the Department of Human Services. Section 8-50-807(d), *Tennessee Code Annotated*, states that an employee terminated for gross misconduct is not entitled to be compensated for annual leave.

The purpose of the statutory requirement to notify the Comptroller is to ensure a thorough investigation and appropriate resolution in the best interest of the state. Failure to report fraud could cause unnecessary delays in prosecution and could result in the state not being able to recover the misappropriated funds.

Recommendation

The Commissioner should ensure that the Director of Program Integrity reports all instances or suspected instances of fraud immediately to the Comptroller of the Treasury. The Director of Program Integrity should not wait until the Director of Investigations receives notification from the district attorney's office as to whether or not it intends to seek a criminal indictment. Also, employees who are terminated for gross misconduct should not be paid for unused annual leave.

Management's Comment

We concur. The Director of Program Integrity will notify immediately the Comptroller of the Treasury via email of any instances of fraud or suspected instances of fraud. The investigations report, if any will be forwarded to the Comptroller's Office when the investigation process is completed. Also, we will make sure that any employees terminated due to misconduct will not receive any payment for their accrued annual leave.

10. The department received advertising services without going through the required bid process and inappropriately used a contract initiated by the Department of Economic and Community Development

Finding

The department improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Incorporated. This action circumvented the required bid process. Furthermore, the services provided to the department were not within the scope of services described in the contract.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.03 (1)(a), state “. . . contracts representing the procurement of services shall be made on a competitive basis. (b) To be competitive, a procurement method must include a consideration and comparison of potential contractors, based upon both cost and quality.” Chapter 0620-3-3-.12 allows the Commissioner of Finance and Administration to make exceptions to the rules. Approved exceptions are to be filed with the Comptroller of the Treasury. The department did not get an exception from the Commissioner of Finance and Administration to forgo the competitive bid process. However, the Commissioner of Finance and Administration did

approve the department's request for usage of \$100,000 of advertising assistance in the advertising contract. The department stated in its request that these services were needed to help with child care reform legislation and other pending initiatives.

In addition, the department received services that were outside the scope of services detailed in the contract previously mentioned. Section A.1 of the contract states that the contractor will provide advertising and marketing "as needed to best promote the business advantages of Tennessee" and that "would best reach prospective industrial and corporate clients." The contractor will also "make specific promotional and media recommendations on how to promote and advertise Tennessee to prospective clients" and "maintain an expert knowledge of all media opportunities and options available to best reach Tennessee's potential customer." Section C.9 of the contract states that the services of the Contractor may be extended ". . . to perform work related to Workforce Development Initiative for other departments and agencies of the State of Tennessee."

According to management and a review of the supporting documentation, the services provided to the department at a cost of over \$72,000 included posters, brochures, and videos promoting quality child care. The services provided do not appear to be not related to promoting the business advantages of Tennessee, promoting the state of Tennessee to prospective clients and customers, or the Workforce Development Initiative.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.05, also state, "The purpose of a written contract is to embody, in writing, the complete agreement between parties. No terms shall be left to an unwritten understanding. A contract shall be explicit and clearly state the rights and duties of each party." However, the Department of Human Services was not a party to this contract, and the scope of services mentioned in the contract did not include the advertising services that were provided.

The purpose of the state's purchasing rules is to ensure that state agencies and departments enter into arrangements that are in the best interest of the state. In addition, not having all services documented in the contract could lead to confusion as to the scope of services, payment terms, and other conditions. Not obtaining bids could result in the state paying more than is necessary for desired services.

Recommendation

The Commissioner should not bypass bidding procedures by obtaining services through other state contracts, unless those contracts conform exactly to the needs of the department. Initiation of new contracts for services should follow the states' competitive bid requirements. All agreements with contractors should be sufficiently detailed to outline each party's responsibilities.

Management's Comment

We do not concur. The use of the Department of Economic and Community Development contract by the Department of Human Services is permitted under Section C.9. This section states that the services of the contractor may be extended “. . . to perform work related to Workforce Development Initiative for other departments and agencies of the State of Tennessee.” The department plays a critical role in all workforce development initiatives undertaken by the state. The Department of Human Services is a partnering agency with the Department of Labor and Workforce Development in implementing the Workforce Investment Act in Tennessee. The availability of quality childcare is a key ingredient to sustaining a skilled labor force. It is the department's responsibility to ensure access to quality childcare for all Tennessee citizens. Further, the Employment and Training Administration of the U.S. Department of Labor has recognized the importance of quality childcare. The Administration awarded grants to 11 states to implement the “Quality Child Care Initiative”. Congress also officially recognized the close link between workforce development and childcare by including a specific credit for this type of expense in the tax code. In defining who may claim this credit, the IRS is very specific about the association to work. According to the IRS, “This credit is available to people who, in order to work or to look for work, have to pay for childcare services for dependents under age 13.”

According to the Economic Opportunity Institute, “An investment in quality childcare doesn't just benefit the workforce of today – it's an investment in the workforce of the future. Communities with necessary services such as childcare are better able to attract and retain workers.”

We believe that there is a link between quality child care and workforce development which supports our use of the ECD contract in question.

Rebuttal

Management was unable to provide any documentation to support that the department's initial intent for using the Department of Economic and Development's contract was to perform work related to the Workforce Development Initiative.

INSPECTIONS OF LICENSED CHILD CARE PROVIDERS

Our objective was to determine if the department complied with applicable laws and regulations regarding the inspection of licensed child care providers.

We reviewed the applicable laws and regulations and interviewed key personnel to gain an understanding of the procedures used to ensure compliance with applicable laws and regulations. We selected a nonstatistical sample of providers from the Tennessee Child Care

Management System database and determined if the proper number of announced and unannounced inspections were made during the term of the license.

Based on the above review and testwork, we concluded that the department complied with applicable laws and regulations regarding the inspection of licensed child care providers.

USE OF CONTRACT EMPLOYEES

Our objective was to determine if the department was using grant agreements to obtain staffing services to assist in implementing the Families First and Rehabilitation Services program. We also tried to determine whether management considered or compared the costs associated with this method of obtaining “employees” with any alternate methods.

We interviewed key department personnel and obtained a listing of all persons that had been working in departmental programs for at least six months and were not employed by a temporary service company, and were not state employees. The listing included each person’s work station, job title, length of time that the person had been working in that position, and the organization that was paying the person’s salary and benefits. We reviewed the applicable laws and regulations as well as the agreements under which these persons worked for the department. We also asked management whether they had considered or compared the costs associated with this method of obtaining “employees” with any alternate methods.

Based on our review and testwork, we determined that the department used grant agreements to, in effect, perform state services. This is discussed in finding 11.

11. The department has spent funds using contract employees for as long as seven years, resulting in significant fiscal and legal issues, which are especially critical in the current and foreseeable budget situation

Finding

The Department of Human Services has used grant agreements with another state department, a community services agency, state colleges, human resource agencies, nonprofit agencies, and municipal and county governments to obtain staffing services mainly used to assist in implementing the Families First and Rehabilitation Services programs. As of October 2002, these grant agreements had employed 661 individuals for at least six months. Some have served in their position for as long as seven years.

The state apparently has incurred additional cost by contracting with state and non-state entities to provide these individuals. In addition to paying the salaries and benefits, travel, training, and supplies of these “employees,” in some cases, an additional administrative fee is paid to those organizations. Management indicated that these individuals could be transferred onto the state payroll if the positions were made available. However, there is no evidence that

management considered or compared the costs associated with this method of obtaining “employees” with any alternative methods. By using such “employees,” the department may not be spending the state’s limited resources and federal funding as efficiently as possible, and discontinuing the use of such contractors should reduce costs. Using this method of staffing also serves to disguise the true personnel costs of the programs, diverts scarce state resources from the development of a stable workforce, and creates potential liability for retroactive pension costs for contractors who may meet Internal Revenue Service rules for employees.

Recommendation

Until a complete review of the fiscal, legal, and programmatic consequences of using such contracts justifies the benefit to the state, the Department of Human Services should not use grant agreements with state departments, community services agencies, state colleges, human resource agencies, non-profit agencies, and municipal and county governments to provide individuals who are, in effect, performing state services. Since the department is already expending the funds, the practical solution would be to use the state’s limited resources and federal funding as efficiently as possible.

Management’s Comment

We concur in part. We agree that a number of functions carried out by contractors could be more efficiently performed by state employees, when those functions are a part of the usual work of department employees. The department, in fact, is currently taking steps to take over various information systems activities currently contracted for through the state’s ITPRO contracting mechanism. Also, we are involved in competitively bidding for grant funds to operate the department’s Child Care Certificate Program outside the four urban areas.

However, it is often not possible, practical, or efficient to obtain state positions for carrying out some of the services provided by the department. A case in point is the Families First program. When the program was created by statute, the department was expressly authorized to secure contracts to carry out programs. The vast majority of agencies selected as our contractors were already involved in providing counseling or employment and training services. Thus they had an existing infrastructure to assist with removing barriers and placing our clients into jobs. The cost associated with hiring and training staff for these types of functions would have been substantial, potentially much greater, if we had implemented these types of services internally. In a majority of other states, the services associated with operating TANF are contracted to agencies that have expertise in these areas.

The Families First program has continued to evolve and has undergone significant changes in focus, service mix, service design, and contractor mix since 1996. Although the finding notes that “some” of the contract employees have been employed for the past seven years, an overwhelming number of contract positions have not been filled by the same people or even been designated for the same purposes year after year. The flexibility gained and exercised by

the department, which allows for contracts to be changed or terminated fairly frequently, cannot be duplicated when state employee positions are used.

EQUIPMENT

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

- policies and procedures regarding equipment were adequate,
- access to the Property of State of Tennessee (POST) system was adequately limited,
- expenditures charged to equipment reconciled to equipment additions in POST,
- equipment information was properly recorded in POST, and
- the department complied with federal requirements regarding equipment.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's policies and procedures regarding equipment. We obtained a listing of all equipment costing at least \$5,000 and assigned to this department and determined if the equipment had been inventoried prior to the end of the fiscal year. We also obtained a current listing of all persons with access to POST and determined if they were active employees. From this listing, we tested a nonstatistical sample of active employees to determine if the employees' duties required their designated level of access and whether this level of access did not create an inadequate segregation of duties. A listing of all expenditures charged to equipment during the fiscal year was obtained and compared to the equipment in POST. Also, we tested a nonstatistical sample of equipment to determine if the information in POST was accurate and if the department had complied with federal requirements regarding equipment.

Based on our interviews and testwork, we determined that equipment policies and procedures were adequate. The department had in all material aspects completed its equipment inventory prior to the end of the fiscal year. Persons with access to POST were active employees, had duties that required their level of access, and the level of access did not create an inadequate segregation of duties. Expenditures charged to equipment during the fiscal year reconciled to the total of the equipment in POST. Also, in all material aspects the information in POST was accurate and the department had complied with applicable federal requirements.

INTERNAL AUDIT

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

- internal auditors were qualified for their job duties,
- the internal audit unit was independent of the department's program functions,
- conclusions in the internal audit reports were adequately supported by the testwork in their working papers,
- the internal audit unit was adequately meeting the department's needs, and
- internal audit was submitting its annual plans and audit reports to the Comptroller of the Treasury in a timely manner.

We interviewed the Director of Program Integrity to gain an understanding of internal audit's procedures for conducting audits. We reviewed the applicable policies and procedures which regulate internal audit's activities. We reviewed the department's organization chart and reviewed the minimum qualifications for all internal audit positions and compared these qualifications to the education and experience for each auditor. We obtained internal audit's annual plans and reports and determined if the annual plans and reports were submitted timely. We reviewed selected working papers to determine if the conclusions in the related reports were supported by the testwork, and we compared the reports completed during the audit period to the plan that was submitted by June 30, 2001.

We concluded that in all material aspects,

- internal auditors were qualified for their job duties,
- the internal audit unit was independent of the department's program functions,
- conclusions in the internal audit reports were adequately supported by the testwork in their working papers,
- the internal audit unit was adequately meeting the department's needs, and
- internal audit was submitting its annual plan and audit reports to the Comptroller of the Treasury in a timely manner.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter.

Our objectives were to determine whether the department's June 30, 2002, responsibility letter was filed in compliance with Section 9-18-04, *Tennessee Code Annotated*, and corrective actions have been implemented for weaknesses identified in the report.

We reviewed the department's June 30, 2002, responsibility letter and determined that the department had filed its responsibility letter by the required deadline. No weaknesses were identified in the report.

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

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

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

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 22. We reviewed the reports sent to the Department of Finance and Administration. We obtained a listing of all entities that had received funds classified as grants from the department and compared this listing to the list sent by the department to the Department of Finance and Administration. As a result of our testwork, except as noted in finding 3, we concluded that

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

HOTLINE CALL INVESTIGATION

Our primary objective in this area was to determine whether the department followed up on calls received by the Comptroller hotline and whether the department reported the results of investigations to the Comptroller's Office in a timely manner.

We interviewed key department personnel and reviewed written transcripts of Comptroller's hotline calls and letters sent to the department regarding these calls. We also reviewed written reports submitted to the Comptroller's office outlining the results of the department's investigation and remedial action taken.

Based on our review, the department did not always report the results of its investigation of Comptroller hotline calls in a timely manner as discussed in finding 12.

12. The department has not always reported the results of its investigation of Comptroller hotline calls in a timely manner as required by state law

Finding

The Comptroller of the Treasury maintains a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. As required by Section 8-4-403(a), *Tennessee Code Annotated*, a record is kept of each meritorious call, and the Comptroller of the Treasury either investigates the call or refers it to the appropriate agency. During the fiscal year ended June 30, 2002, there were 57 calls that related to organizations or departmental offices that administer one or more programs of the Department of Human Services. Twenty-six of the 57 calls received (46%) related to childcare issues. As a result, the Commissioner was provided 42 letters, along with a written transcript of the 57 calls. Some of these letters pertained to more than one call. Section 8-4-403(b), *Tennessee Code Annotated*, requires the Commissioner to submit a written report to the Comptroller of the Treasury outlining the findings of the investigation and any remedial action taken. As of January 16, 2003, the Comptroller's office had not received a written report on 17 of the letters (40%), 14 (82%) of which related to childcare issues. The length of time since the department received written notification from the Comptroller's office about the open complaints ranged from 7 to 15 months.

If a written report is not submitted to the Comptroller of the Treasury, outlining the findings of the investigation and any remedial action taken on hotline calls as required by state law, the Comptroller of the Treasury has no assurance that the department has promptly followed up on hotline call complaints, particularly those related to childcare. Also, as stated in Section 8-4-403(b), *Tennessee Code Annotated*, the department is to retain a copy of the report sent to the Comptroller of the Treasury, and this report shall be considered prior to entering into any contractual relationships with the agency addressed in the report.

Recommendation

The Commissioner should ensure that a written report is promptly submitted to the Comptroller of the Treasury outlining the findings of the investigation and any remedial action taken on hotline calls as required by state law. A copy of this report should be maintained by the department and considered prior to entering into contractual agreements with any agency addressed in the hotline call.

Management's Comment

We concur. The department has not consistently reported the results of its investigations in a timely manner, but any calls that involve the safety and welfare of children and adults are investigated promptly. Most of the hotline calls we receive involve agencies regulated by the Adult and Family Services Division. This Division has implemented procedures to ensure the prompt investigation of calls and the reporting of the results to the Office of Program Integrity so they may notify the Comptroller. Also, the Office of Program Integrity is implementing a system to notify any division within the department of any hotline calls assigned to them that have exceeded a predetermined number of days without a response.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964 AND TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

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.

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.

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.

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.

Our objectives were to determine whether the department submitted the Title VI compliance report and implementation plan and the annual Title IX compliance report and implementation plan by the deadlines and to determine whether the Title VI and Title IX plans included the implementation plans of the department's subrecipients.

We reviewed the submission dates of the Title VI and Title IX compliance reports and implementation plans to determine adherence to the submission deadline. In addition, we interviewed key personnel to determine if the scope of the Title VI and Title IX reports included the department's subrecipients.

The Department of Human Services filed its Title VI compliance report and implementation plan on June 28, 2002, however, the implementation plan did not include the implementation plans of the department's subrecipients. Also, the Title IX implementation plan were filed June 20, 2002, with the Department of Audit, however, it did not include the implementation plans of the department's subrecipients. Also, the department also did not file a Title IX compliance report. This is discussed in finding 13.

13. The Department of Human Services' Title VI and Title IX implementation plan updates did not include the department's subrecipients, nor did the department submit a Title XI compliance report

Finding

The Department of Human Services' Title VI and Title IX implementation plan updates did not include the department's subrecipients, nor did the department submit a Title IX compliance report as required by state law. The department submitted its Title VI and Title IX implementation plan updates and its Title VI compliance report on June 28, 2002. However, the department's implementation plans did not include the Title VI and Title IX implementation plans of subrecipients who receive federal funds through the department Sections 4-21-901 and 4-4-123, *Tennessee Code Annotated*. State law also requires the department to submit an annual compliance report. The implementation plan updates and compliance reports are to be submitted to the Department of Audit by June 30 of each year.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all states receiving federal money to develop and implement plans to ensure that no person shall be excluded from participation in, or denied the benefits of any federally funded program or activity because of the person's race, color, or national origin. Title IX of the Education Amendments of 1972 is also a federal law. This act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

The absence of Title VI and Title IX and implementation plan updates, which includes the department's subrecipients, and the Title IX compliance report could indicate that inadequate attention is being given to preventing discrimination on the basis of a person's race, color, national origin, or gender.

Recommendation

The Commissioner of the Department of Human Services should ensure that the department's Title VI and Title IX implementation plan updates include its subrecipients. The department should also submit the required compliance reports.

Management's Comment

We do not concur the department's Title VI and Title IX implementation plan updates did not include the department's subrecipients. There is no requirement that the department's plan include an implementation plan from each subrecipient. State statute requires, "To the extent applicable", Title VI and Title IX implementation plans of any subrecipient be included in the department's implementation plans. The department has determined that submission of a Title VI or Title IX implementation plan is only applicable to subrecipients who have been identified as out of compliance with the standard grant or contract nondiscrimination language included below:

Nondiscrimination. The Contractor hereby agrees, and assures that no person shall be excluded from participation in, be denied benefits of, or be otherwise subjected to discrimination in the performance of this Contract or in the employment practices of the Contractor on the grounds of disability, age, race, color, religion, sex, national origin, or any other classification protected by Federal, Tennessee State constitutional, or statutory law. The Contractor shall, upon request, show proof of such nondiscrimination and shall post in conspicuous places, available to all employees and applicants, notices of nondiscrimination.

As stated in the department's Title VI plan, the submission of an implementation plan by the subrecipient is to "effect compliance". Before the department enters into a new contract or extends an existing contract for a vendor found to be out of compliance during monitoring, the vendor must demonstrate by submission of an implementation plan the procedures required to ensure compliance with Title VI. The purpose of the implementation plan on the part of the subrecipient is to "obtain voluntary compliance before there is a refusal, suspension, or termination of federal financial assistance."

We concur the department failed to submit a Title IX compliance report by June 30. The federal statute prohibits sex discrimination "under any educational program or activity receiving federal financial assistance". The department will modify its reporting procedures to ensure compliance for the very limited number of educational programs for which the Title IX statute is applicable.

Rebuttal

The law does not limit its implementation requirements to only those subrecipients who have been identified as out of compliance with the standard grant or contract nondiscrimination language. Applicability relates to whether the department awarded the subrecipient funding subject to the Title VI or Title IX requirements. Implementation plans are the policies and procedures established to effect compliance and prevent or detect noncompliance.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Human Services' divisions and allotment codes:

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