

Department of Personnel

July 2004

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

July 22, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Randy C. Camp, Commissioner
Department of Personnel
First Floor James K. Polk Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Personnel for the period July 1, 2000, through March 11, 2004.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
04/072



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March 11, 2004

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 Personnel for the period July 1, 2000, through March 11, 2004.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Department of Personnel's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Personnel is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

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

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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 Personnel
July 2004

AUDIT SCOPE

We have audited the Department of Personnel for the period July 1, 2000, through March 11, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of equipment, expenditures, the sick leave bank, payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDING

Poor Controls Continue Over Performance Evaluations

The department continues not to comply with its own personnel policies requiring periodic employee performance evaluations (page 5).*

* This finding is repeated from the prior audit.

Financial and Compliance Audit Department of Personnel

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Financial and Compliance Audit Department of Personnel

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Personnel. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires 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.”

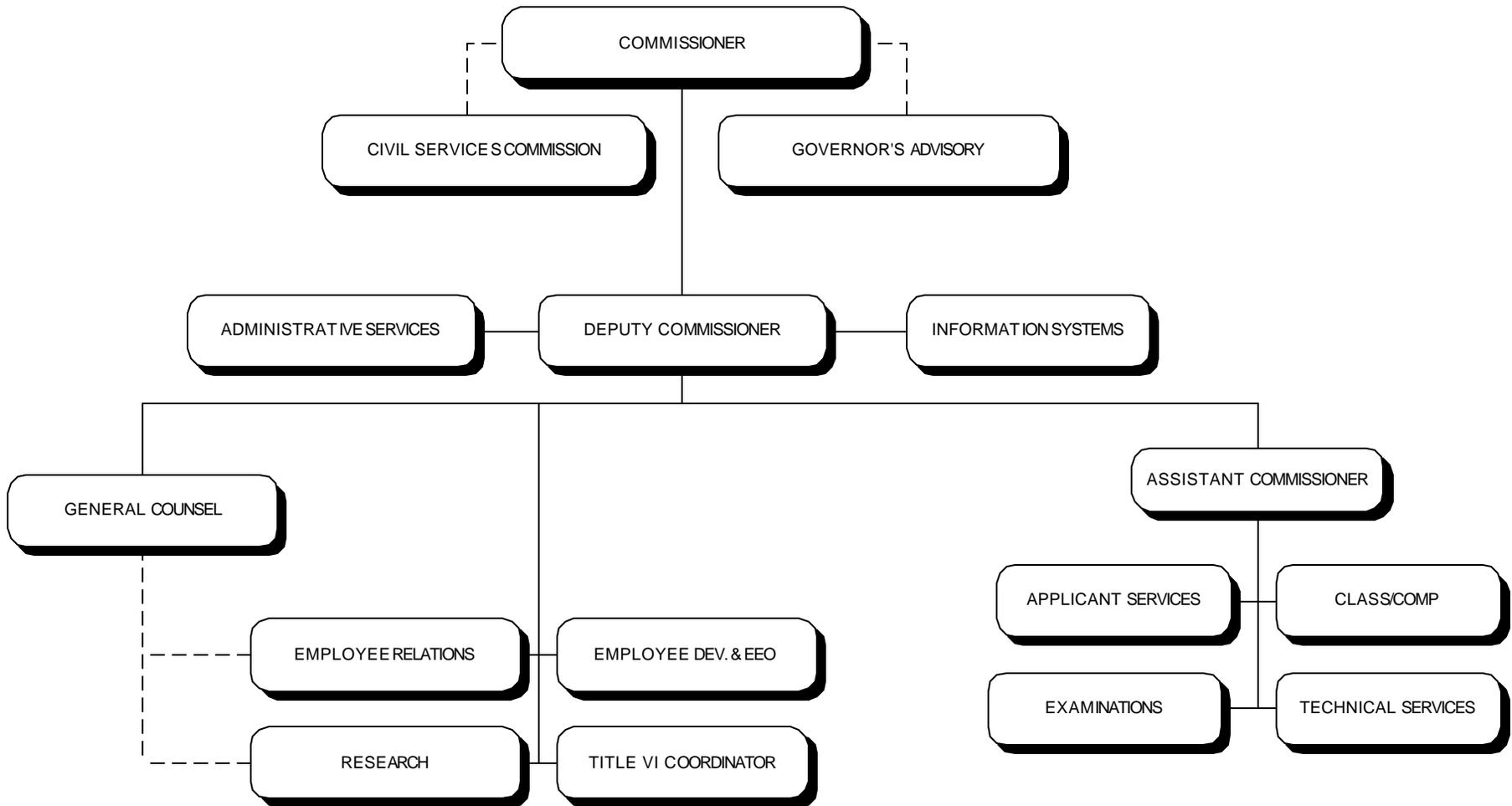
Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Department of Personnel’s mission is to provide the departments and agencies of state government with the most effective, efficient, and customer-focused human resource management system possible. With approximately 38,000 employees, state government is the largest single employer in Tennessee. In helping to ensure the effective and efficient management of those workers, the Department of Personnel provides several basic services. These include advising the Governor on personnel practices; administering provisions of the Civil Service Act; providing departments and agencies with a pool of qualified applicants for selection for employment; and developing a career-oriented workforce through effective management, training, and communication. The department is responsible for meeting the needs of employees in all 95 counties working in more than 1,400 different types of state jobs.

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

DEPARTMENT of PERSONNEL FUNCTIONAL POSITION REPORTING



AUDIT SCOPE

We have audited the Department of Personnel for the period July 1, 2000, through March 11, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of equipment, expenditures, the sick leave bank, payroll and personnel, and the Financial Integrity Act. The audit was conducted in accordance with *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 Personnel filed its report with the Department of Audit on March 15, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Personnel has corrected the previous audit finding concerning failure to promptly detect and accurately report disposition of equipment.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning performance evaluation of the department's employees. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

The objectives of the review of the equipment procedures and controls were to determine whether

- equipment included on the Property of the State of Tennessee (POST) Exception Report was located or deleted from POST;
- equipment was correctly listed on POST;
- equipment was adequately safeguarded; and
- sold, abandoned, damaged, or obsolete equipment was removed from POST.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the inventory of equipment owned by the department. A copy of the Exception Report for the most recent inventory prepared by the Department of General Services was obtained. The items which the agency had indicated as located were confirmed by physically locating the items and verifying the description, tag number, location, and condition. For those items not located, we verified that each piece of equipment was properly deleted from POST. Supporting documentation was reviewed, and samples of equipment maintained throughout the department were tested.

Based on our interviews, review of supporting documentation, and testwork, we determined that the equipment included on the POST Exception Report was located or properly deleted; that equipment was correctly listed on POST; that equipment was adequately safeguarded; and that sold, abandoned, damaged, or obsolete equipment was removed from POST.

EXPENDITURES

The objectives of the review of the expenditures, procedures, and controls were to determine whether

- expenditures were for authorized goods and services,
- expenditures for goods or services were allowable and in accordance with the budget and other regulations or requirements,
- payments were made in a timely manner,

- travel expenditures were made in accordance with the Comprehensive Travel Regulations,
- contracts were made in accordance with regulations, and
- contract payments were in compliance with contract terms and properly approved and recorded against the contract.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over expenditures. Based on the department's internal controls, a sample of expenditures was selected and tested for the appropriate attributes. Supporting documentation was reviewed, and samples relating to travel and contracts were also tested.

Based on our interviews, review of supporting documentation, and testwork, we determined that the expenditures tested were for authorized goods and services, were allowable costs, and payments were made in a timely manner. Travel expenditures were made in accordance with the Comprehensive Travel Regulations. We also determined that contracts were made in accordance with regulations and payments were made in compliance with contract terms.

PAYROLL AND PERSONNEL

The objectives of the review of the payroll and personnel procedures and controls were to determine the status of the prior audit finding by determining whether

- payroll disbursements were made for work authorized and performed;
- payroll was correctly recorded as to amount and period;
- payroll was distributed properly by account, fund, and budget category; and
- performance evaluations were current and completed in the time period required.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over payroll. Based on the department's internal controls, a sample of payroll transactions was selected and tested for the appropriate attributes. Personnel files were obtained, and employment confirmations were sent to individuals in the sample. Supplemental payroll registers were reviewed for reasonableness and adequate support.

Based on our interviews, review of supporting documentation, and testwork, we determined that payroll disbursements were made for work authorized and performed; that payroll was correctly recorded as to amount and period; and that payroll was distributed properly by account, fund, and budget category. However, we noted that performance evaluations were still not current and completed in the time period prescribed by departmental policy, as discussed in the finding.

Finding

Poor controls continue over performance evaluations

As noted in the prior audit, the Department of Personnel has not complied with its own policies and procedures requiring periodic employee performance evaluations. The Department of Personnel's rules require that each employee's performance be evaluated at least every 12 months. Management concurred with the prior finding and stated,

As a result, the Commissioner has directed the executive staff to review the current performance evaluation tracking system printout for delinquent performance evaluations and to bring current all delinquent evaluations within ninety days. Furthermore, the Commissioner has directed the Assistant Commissioners to review the tracking system reports for their respective areas of responsibility monthly to ensure all performance evaluations are performed in a timely manner.

However, management has not ensured that all personnel performance evaluations were performed in accordance with its policy.

A review of the department's employee listing that includes the hired date and the date of the last evaluation disclosed that 22 out of 82 employees (26.83%) had not been evaluated in a timely manner. One of the 22 employees had not received an evaluation for 11 years and 8 months, and another employee had not received an evaluation for 5 years and 8 months. The 20 remaining employees had not received a performance evaluation for a period of between one and two years.

The *Rules of Tennessee Department of Personnel*, Chapter 1120-5-01, "Job Performance Planning and Evaluation," states that the purpose of the job performance evaluation is "to promote employee development, enhance employee productivity, serve as a basis for sound personnel decisions, and provide a permanent record of the performance of major duties and responsibilities for employees in the State service." To maintain and improve job performance and to properly consider individuals for merit increases and promotions, the department needs to evaluate employees regularly.

Recommendation

As stated in the previous audit, supervisors should use the performance evaluation tracking system in order to determine when periodic performance evaluations are necessary. The commissioner should ensure that the evaluation process is monitored to determine department supervisors' compliance with the Department of Personnel's policies for employees' performance evaluations.

Management's Comment

We concur. The department utilizes the performance evaluation tracking system to monitor performance evaluations and to notify supervisors when evaluations are necessary. However, the department has not been as diligent as necessary or desired in ensuring performance evaluations are performed in a timely manner. The Commissioner has directed the Deputy and Assistant Commissioners to be provided a monthly report on the status of performance evaluations for their respective areas of responsibility and instructed them to communicate this information to division directors. In addition, at monthly executive staff meetings division directors are required to report on the status of performance evaluations in their areas and address steps being taken to bring current any overdue evaluations.

The department strongly supports the performance evaluation system. The department recognizes and understands the value the performance evaluation has to management and, more importantly, to the employee in providing feedback on their job performance and professional development.

SICK LEAVE BANK

The objectives of the review of the sick leave bank program procedures and controls were to determine whether

- sick leave bank transactions were made for allowable activities,
- sick leave bank transactions were made to eligible employees, and
- sick leave bank transactions were properly authorized and approved.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the use of leave from the Sick Leave Bank and policies over departmental transfers for sick leave bank members. Based on the department's internal controls, a sample of sick leave bank transactions was selected and tested for the appropriate attributes. Supporting documentation was reviewed.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that sick leave bank transactions were made for allowable reasons, were made to eligible employees, and were properly authorized and approved.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2003, 2002, and 2001, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions (are being/have been) implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 2003; June 30, 2002; and June 30, 2001, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration.

We determined that even though the Financial Integrity Act responsibility letters for June 30, 2002, and June 30, 2001, were not submitted on time, the June 30, 2003, responsibility letter and December 31, 2003, internal accounting and administrative control report were submitted on time. Support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*.

APPENDIX

ALLOTMENT CODES

319.01	Division of Executive Administration
319.02	Division of Human Resources Development
319.03	Division of Technical Services
319.99	Sick Leave Bank