

**Audit Results From  
CAFR and Single Audit Procedures**

**Department of Health**

**For the Year Ended  
June 30, 2004**

**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
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**Department of Health  
For the Year Ended June 30, 2004**

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**Department of Health  
For the Year Ended June 30, 2004**

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**EXECUTIVE SUMMARY**

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**Findings**

- FINDING 1 Although the bulk of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) participants are automatically eligible due to their participation in other programs, the department has issued WIC vouchers to individuals who appeared not to be eligible based on the information contained in the PTBMIS system. The department has not properly documented eligibility records of participants in the WIC program. Total federal questioned costs were \$419,810 (page 6).
- FINDING 2 The department did not adequately monitor a high-risk food delivery vendor for the WIC program when information raising concerns about the vendor's integrity came to management's attention (page 14).
- FINDING 3 The department has not adequately segregated duties of employees responsible for the issuance of food vouchers to participants in the WIC program. Therefore, it is possible for users to create participant files to support unauthorized vouchers issued, which makes detection of unauthorized vouchers more difficult (page 18).
- FINDING 4 Security over the Patient Tracking and Billing Management Information System (PTBMIS) needs improvement. Management could not provide the PTBMIS User Authorization forms for 22 of 25 users (88%) in the Upper Cumberland region or for any of the users in the Shelby County Metropolitan Health Department. In addition, the department has not produced and reviewed a PTBMIS System Security Report to monitor system access (page 20).
- FINDING 5 Management could not provide adequate assurances that no improper program changes and modifications had occurred. Program change documentation for PTBMIS was missing, incomplete, or not approved by management. In addition, system administrators improperly circumvented management approvals, resulting in errors in system data (page 21).
- FINDING 6 The department does not have information systems policies and procedures. Without these policies and procedures, the department does not have sufficient guidance to effectively direct, control, operate, and maintain any of its systems (page 23).

- FINDING 7 The department did not monitor the required percentage of local agencies or clinics for the WIC program. The department did not monitor two of the ten local agencies at least once every two years as required. In addition, the review of one region did not include the required 20% of all clinics in the region (page 24).
- FINDING 8 The department has not followed its policy to identify and prevent dual participation in WIC and the Commodity Supplemental Food Program (CSFP). The purpose of the dual participation report is to identify participants that may be participating in more than one WIC program or in both the WIC and CSFP programs (page 25).
- FINDING 9 The department understated expenditures for the Immunization Grants program on the Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2004, by \$4.7 million. Staff did not include all expenditures for the state's county health departments in the schedule (page 27).
- FINDING 10 The department did not comply with program requirements and special tests and provisions for the Immunization Grants program. The department has not ensured that providers in the program have maintained adequate documentation of vaccinations given. In some cases, providers have charged a higher fee than established by the United States Department of Health and Human Services (page 28).
- FINDING 11 The controls over the federal Vaccine Management System (VACMAN) need improvement. Testwork revealed that management of the department's Communicable and Environmental Disease Service (CEDS) section has not limited access to the system to only staff who need it; CEDS management did not approve provider agreements; and CEDS staff did not reconcile providers listed in VACMAN to actual provider agreements (page 29).

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Health during our annual audit of the state's financial statements and major federal programs. For the complete results of our audit of the State of Tennessee, please see the State of Tennessee *Comprehensive Annual Financial Report* for the Year Ended June 30, 2004, and the State of Tennessee *Single Audit Report* for the Year Ended June 30, 2004. The scope of our audit procedures at the Department of Health was limited. During the audit for the year ended June 30, 2004, our work at the Department of Health focused on two major federal programs: Immunization Grants and the Special Supplemental Nutrition Program for Women, Infants, and Children. We audited these federally funded programs to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the program to ensure compliance. Management's response is included following each finding.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

May 26, 2005

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

and  
The Honorable Kenneth S. Robinson, Commissioner  
Department of Health  
Cordell Hull Building, 426 Fifth Avenue North  
Nashville, Tennessee 37247

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Health as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2004, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in certain findings which are detailed in the Findings and Recommendations section.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ab  
04/103



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COMPTROLLER OF THE TREASURY  
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March 1, 2005

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Health as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2004. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Health.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal programs administered by the Department of Health. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

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**Major Federal Programs Administered by the  
Department of Health  
For the Year Ended June 30, 2004  
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$100,452
93.268	Immunization Grants	\$25,081

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Source: State of Tennessee's Schedule of Expenditures of Federal Awards for the year ended June 30, 2004.

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The Honorable John G. Morgan  
March 1, 2005  
Page Two

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued an unqualified opinion, dated December 3, 2004, on the State of Tennessee's financial statements for the year ended June 30, 2004. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified certain internal control and compliance issues related to the major federal programs at the Department of Health. Those issues, along with management's response, are described immediately following this letter. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Health's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a trailing flourish.

Arthur A. Hayes, Jr., CPA,  
Director

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## FINDINGS AND RECOMMENDATIONS

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1. **Although the bulk of WIC participants are automatically eligible due to their participation in other programs, the department has issued WIC vouchers to individuals who appeared not to be eligible based on the information contained in the PTBMIS system**

### Finding

The department has not properly documented eligibility records of participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

The Department of Health uses the Patient Tracking and Billing Management Information System (PTBMIS) to maintain WIC clients' eligibility information. Data from PTBMIS is provided to the federal government as an administrative requirement of the department's participation in the WIC program. During the course of the audit, we reviewed the general and application controls over PTBMIS. We found that the IS Director did not implement effective controls to ensure that regional system administrators could not make unauthorized changes to system tables. As a result according to department staff, the regional system administrators changed the system tables in order to enter inappropriate values for WIC, such as "NP" as noted below. In addition, PTBMIS management has not implemented effective data entry and edit controls over eligibility data fields to reduce the occurrence of data entry errors or the risk of intentional false data.

According to the *Code of Federal Regulations* (CFR), Title 7, Part 246, Section 7(i), "All certification data for each person certified shall be recorded on a form (or forms) which are provided by the State agency." An individual who applies for WIC must certify his or her identity, residency, and income. This information must also be verified by the Department of Health by a review of various source documents which are to be presented to Department of Health staff by the applicant. Since the application process is essentially "paperless," the supporting documents themselves are not retained. If the individual is receiving Temporary Assistance to Needy Families (TANF), Food Stamps, or is on TennCare/Medicaid, then the individual is automatically eligible for the WIC program and the participant's income does not have to be verified. (The technical term for automatic eligibility is adjunctive eligibility, and this term will be used in the finding.) The department also uses the Informed Consent Form to document all certification information for WIC eligibility presented by the applicant. The Informed Consent Form is also used to document other eligibility criteria such as residency and income, and the form provides space for the applicant's signature certifying the accuracy of information provided. The information on the Informed Consent Form comes from PTBMIS.

Our audit procedures regarding the eligibility of WIC participants were twofold. First, we used computer-assisted auditing techniques to search data fields in the PTBMIS that would

indicate potential errors that could result in ineligible participants. Second, we selected a sample of 85 participants' files to test the correctness of eligibility determinations.

### Search of PTBMIS data fields

We used computer-assisted auditing techniques (CAATs) to identify participant information in four regions (Davidson, Hamilton, Shelby, and Mid-Cumberland) which had been recorded in PTBMIS records which would make it appear that ineligible participants received WIC benefits. The auditor excluded participants that were recorded in the system as eligible for other state or federal government programs, which would make them adjunctively eligible for WIC, because these participants did not have to meet the verification of income requirement.

Our CAATs revealed that the department did not maintain accurate eligibility information on some WIC participants in PTBMIS.

#### A. Verification Issues

The department issued vouchers redeemed in the amount of \$732,572 during the audit period by 1,935 of 76,335 participants (2.5%) whose PTBMIS record did not include verification of income, proof of residency, or proof of identity as required by CFR, Title 7, Part 246, Section 7(d)(2)(v). However, the Department subsequently reviewed the 1,935 participants after we informed them of this issue and provided other proof of the adjunctive eligibility for 1,577 participants. The department did not provide proof of eligibility for the remaining 330 of 76,335 participants (0.44%). Federal questioned costs for the 330 participants totaled \$120,162.

#### B. Detailed Data Errors in PTBMIS

- The department issued vouchers during the audit period to 364 participants (.3%) with total incomes improperly recorded in PTBMIS as the default income (\$999,999) for adjunctively eligible participants when they were not adjunctively eligible. This permitted vouchers to be issued to individuals when the very record their eligibility determination was based on did not support eligibility. Of these, 29 were included in the listing in Section A above. In the system, the participants' verification source did not show that the participants were adjunctively eligible; therefore, the system should have calculated their actual income instead of the default. Federal questioned costs for the remaining 335 participants were \$75,050.
- The department issued vouchers during the audit period to 550 participants (.5%) whose income as recorded in PTBMIS exceeded the maximum allowed for the recorded family size. These participants were not coded as adjunctively eligible. Eight of these participants had annual incomes incorrectly recorded in PTBMIS as over \$1 million. It appears this is a flaw in the system's ability to record annual incomes. The total income field records no more than six digits. Our observation of incredibly high incomes for some participants led us to recalculate the incomes entered in these fields by the caseworkers based on the information obtained from applicants. Those recalculations revealed that the high figures most likely resulted

from staff entering the cents as part of the salary. The system would drop the decimal point and record all the cents as dollars. For example, \$10,000.00 a year would become \$1,000,000. Clearly someone earning that much would not be eligible for WIC. Although there were only eight examples of \$1,000,000 incomes out of the 76,335 files reviewed, the fact that these figures did not raise questions among WIC staff calls into question whether this field is serving as an edit or is being reviewed at all. WIC eligibility is partially determined by reviewing the participant's income and the number of persons in the family. These values are compared to established federal criteria, and all participants who are not adjunctively eligible must meet this requirement. Of the 550 participants, 119 were previously reported in this finding. Federal questioned costs for the remaining 431 participants were \$130,607.

- The department issued vouchers during the audit period to 398 non-adjunctive participants (.5%) whose incomes were recorded as less than \$100 and whose verification of their income was coded as “Blank” or “NP” (Not Provided). According to department personnel, incomes of less than \$100 are valid, but “Blank” and “NP” are not listed as valid WIC codes for proof of income in the *2003-2004 WIC Manual State of Tennessee*. The costs for the vouchers redeemed for these participants were questioned in Section A above.
- The department issued vouchers during the audit period to 300 participants (.3%) who were not coded as adjunctively eligible, and did not have any income value recorded or any verification of income recorded in the PTBMIS system. CFR, Title 7, Part 246, Section 7(d)(2)(v), requires that participants that are not identified as being eligible for another state or federal program which would make them adjunctively eligible must provide verification of income. Vouchers redeemed for 207 of the 300 have been listed previously. Federal questioned costs for the remaining 93 were \$54,538.
- The department issued vouchers during the audit period to 90 participants (.1%) whose address was recorded as out of state. CFR, Title 7, Part 246, Section 7(c)(1)(i), requires that participants “reside within the jurisdiction of the State.” In addition, the *2003-2004 WIC Manual State of Tennessee* also states that applicants must be residents of the State of Tennessee. It further states that participants who move into the state must show proof of identity and residency to receive program benefits. As a result, no participants should be listed with out-of-state addresses. Vouchers for two of the participants have been listed previously. Federal questioned costs for the remaining 88 participants were \$20,212.
- The department issued vouchers in the audit period to 51 participants (.06%) who had questionable family sizes listed in PTBMIS. There were participants whose family size was recorded on their most current PTBMIS record as ranging from 16 to 81. These participants were not adjunctively eligible. Family size is used to determine income eligibility for non-adjunctively eligible participants. Vouchers for five of these participants were listed previously. Federal questioned costs for the remaining 46 participants were \$19,045.

## Review of participants' files

In addition to our CAATs testwork, we reviewed 85 participants' files selected from four clinics chosen at random from counties with WIC expenditures for the year ended June 30, 2004, that were among the highest. The review revealed that for one participant, the department certified the participant as automatically eligible for the WIC program because the participant was on TennCare. However, our review determined that the participant was not on TennCare for the period December 8, 2003, to June 29, 2004, and therefore was not automatically eligible for the WIC program, and no other eligibility procedures had been performed. Department personnel stated that the WIC recertification process should have determined whether the participant had lost TennCare eligibility and thus WIC eligibility. The total amount of redeemed WIC vouchers for the participant was \$195.90. The total amount of redeemed WIC vouchers for the sample of participants was \$6,220.78. The total of redeemed vouchers for the participant's clinic for the year was \$276,321.04, and the total redeemed vouchers for all four clinics for the year was \$6,983,381.79. Federal questioned costs totaled \$196.

If certifications and verifications of WIC participants' eligibility are not performed and documented properly and recorded accurately into PTBMIS, benefits may be provided to those not eligible. These issues are particularly critical in a paperless system. Furthermore, the Department of Health could apply the same CAATs we did to their population of files.

### **Recommendation**

The Commissioner should ensure that the WIC Director, the IS Director, and staff follow proper procedures to certify participants' eligibility and that eligibility determinations are properly documented for all WIC participants in the paper files as well as properly recorded in PTBMIS.

The WIC Director should ensure that staff verify and obtain certifications of participants' identity, residency, and income, when participants are not adjunctively eligible. This information should be properly documented in PTBMIS.

The WIC Director and the IS Director should implement appropriate edit controls over the data entered into the PTBMIS system. Specifically, the WIC Director should ensure that staff

- perform edit checks to verify that family sizes are reasonable (all family sizes exceeding a preset limit should be verified and approved by supervisory personnel);
- implement system controls to prevent the use of invalid codes for WIC certifications; and
- ensure that the addresses of WIC participants are within the jurisdiction of the State of Tennessee WIC program.

In addition, the WIC Director should ensure that the WIC program staff and internal audit adequately monitor all clinics to ensure that clinic staff are performing and documenting

eligibility determinations. The WIC Director should monitor all edits. Only the WIC Director should be able to turn the edits off. In such case, the reason should be documented in writing.

The WIC Director should take the time to review all of the other questionable transactions we noted to ensure that the transactions are only the result of a lack of due regard of controls and not fraud.

### **Management's Comment**

We concur in part with this finding. We agree that the documentation within the PTBMIS system did not always confirm a WIC participant's eligibility for the program. However, we do not agree with the value of the questioned costs.

In the very limited time available since the receipt of this finding, we can show that the majority of the records cited by the auditors are eligible either by virtue of Medicaid eligibility or based on other evidence within PTBMIS or the participants' medical records. As discussed below, we believe we have explained \$270,721 of the \$419,810 questioned costs identified in the audit. While \$149,089 remains unexplained at this point the Department will continue to assess the exception records to determine if any participants in the program received WIC services when they were not eligible. The \$149,089 that is potentially still questionable only indicates that the eligibility for individuals for whom those vouchers were issued has not yet been assessed by the WIC Central Office staff and should in no way indicate that the Department agrees that those participants are ineligible.

It is important to acknowledge that the PTBMIS system is used in all ninety-five health departments and supports clinic activities as well as serving as the data system for many of the programs administered by the Bureau of Health Services. Many of the patients that receive WIC services at the local health departments are also served by other programs administered in those local health departments. Health departments strive to provide quality services in an efficient manner in order to serve as many Tennessee citizens as possible. It was for that reason that table adjustments had been made in some of the metro health departments' PTBMIS systems. These health departments contract with the Department for the delivery of WIC services. These adjustments in the tables were made by these contractors to facilitate efficient processing of patients being served in other programs with different eligibility requirements and were not intended to negatively impact the accuracy of WIC eligibility determinations. These actions were not approved by the Department and the tables have been returned to their appropriate settings at the Department's request. A check of the tables by the Department on March 15, 2005, verified that the tables were correct. Additionally, a request has been made to the PTBMIS contractor to prohibit the updating of the WICQ screen and voucher printing if the table entry NP (Not Provided, which is used on the FI screen for all other programs) or a blank entry is in the FI screen of a WIC certification visit. Tables are being monitored until a permanent fix can be made that will disallow WIC food instruments to be printed when inaccurate data has been entered into the proof fields.

Regional Quality Management staff have been briefed on the errors that have been found in documentation. We are exploring modifications to the review tools that are currently being used by the Quality Management staff to address some of the weaknesses cited by the auditors that would hopefully prevent these kinds of problems in the future. Discussion of the importance of strong internal controls and accurate eligibility determination and documentation will be included on the agenda for the annual WIC Field Staff meeting this summer. Both WIC central office staff and Bureau staff will run special reports from each region's and metropolitan health department's PTBMIS systems to look for aberrant records and potential breaches in internal controls so that appropriate corrective actions can be taken.

We agree that the Department and its contractors must be diligent in assuring that accurate eligibility determinations are made and documented for those who participate in the program.

The following responses relate to the individually listed problems:

A. Verification Issues

As time has allowed, we have obtained proof of eligibility through participant record information. Of the 330 participant records, 94 records have documented eligibility which would reduce the \$120,162 reported questioned costs to \$82,804. With more time to research each record, it is estimated that there would be more records with documented eligibility further reducing the questioned costs.

B. Detailed Data Errors in PTBMIS

- An income of \$999,999 is a system default value in response to answering "No" to the sliding scale question. This question applies to fee for service programs within the Department of Health other than WIC. The information on the financial screen of PTBMIS is applicable to all programs that use Department of Health services. Although the "Total Income" defaults to the value of \$999,999 with an "N" in the sliding scale field, there are other fields where household member's income is documented and they are completed accurately and used for WIC eligibility.

Our research, with supporting documentation, shows that of the 335 items identified in the finding resulting in \$75,050 in questioned costs, there are only two which do not have Medicaid eligibility or eligible income showing on the eligibility screen in the field where it is captured. These two totaled \$389 of redeemed vouchers. This reduces reported questioned costs from \$75,050 to \$389.

- In reviewing the financial screen histories of these participants, we identified the reasons for many of the incomes exceeding the income guidelines. Proof has been found for data entry errors which included some prenatal patients who did not have the fetus counted as an additional family member and errors where there was only 1 or 2 shown in the family but more persons shown with income in the household resulting in an increase in the household size.

There are various policies for counting the number in a “household” or “family” for differing programs. WIC policy is to count the number and income in the family of all living in the household. Other programs may only count the pregnant mother and child/fetus if living in a house with others. This accounts for some of the discrepancies in this file. At this point, we have identified proof of eligibility for 316 participants to reduce the reported questioned costs from \$130,607 to \$67,189 for 234 participants. We are still reviewing records of the remaining participants.

- As stated above, table corrections have been made to eliminate blank table entries. A request has been made to our software vendor to block the printing of vouchers if “NP” is listed for a WIC participant on the FI screen for a certification visit.

For many of these records, the participant FI (Financial Information) screen shows a “VO” in the Verification Source field, which means that a Verification of Certification (VOC) was provided by the participant. When a participant brings in a VOC from another location within Tennessee or from another state, no income eligibility has to be verified, nor does a nutritional risk assessment have to be done for the duration of the certification period. Other records of children are accurate as evidenced by Medicaid eligibility screens and FI screens with the correct information from the mother for the same period as the child participant.

Of the 193 findings with “Less Than \$100” in Total Income, we have found evidence of eligibility for all except 14 participants. This reduces the reported questioned costs from \$54,538 to \$2,209.

- We have identified documentation for all 88 persons identified with Out of State addresses that proves they were Tennessee residents at the time of certification.

The patient registration screen is used for all programs and when updated, no history of the information on the screen before the update is stored. In some regions, when a person notifies the clinic they are moving, a VOC (Verification of Certification) is issued to take with them to their new location to establish eligibility. The person is terminated because of Transfer (a 4 in the Termination Reason field) and the patient’s new forwarding address is entered on the Registration screen in the event a billing statement needs to be generated for a balance due. Most of the instances in the Mid-Cumberland region were for such circumstances. Some even have notations in the Note field such as “Moving to PA” or “Transfer papers”. Some of the documentation shows data entry errors such as NT instead of TN but the zip code is the local area zip code.

The two metro health departments involved with these particular exceptions provided copies of information from the patient record that was completed at the time of certification with a Tennessee address. Some of it is paper registration forms completed by the participant and some is information printed from PTBMIS at the time the patient was certified. Therefore the reported questioned cost for this finding should be reduced from \$20,212 to \$0.

- There were 51 identified in the finding for having a family size greater than 16. The finding states that of these 51, five were listed previously, and therefore only 46 remain for a questioned cost of \$19,045. Most errors were created due to data entry mistakes. One exception is a household of 16.

Most of the keying errors are because of the dynamics of the FI screen and field. A new screen brings forward the information on the old screen for updating. The “Number in Family” field is a two character field. On a screen that is brought forward from a previous screen for updating, the character is in the right character of the two digit field. When moving to the “Number in Family” field with the cursor, it goes to the left character of the two digit field. Therefore, many of the keying errors were such as 54, 76, etc. when increasing the family size by one. The new number was entered, yet the old number never deleted.

The total reported questioned costs should be reduced from \$19,045 to \$181.

#### Review of participants’ files

Upon examination of the patient medical record (consisting of the PTBMIS record and the patient chart), it was determined that this participant was eligible for the full period of December 3, 2001, through January 3, 2005. Although through a clerical error, the verification code was not changed from a previous certification, there was a documented annual family income of \$4,186 on the FI screen, which was within the WIC eligibility income guidelines for the visit on December 8, 2003. Included in the patient chart was an Informed Consent signed by the patient verifying this income. Therefore, reported questioned costs should be reduced from \$196.00 to \$0.

#### SUMMARY

As stated above, the Department continues to review the exception records provided by the auditors. Due to the short period of time between the provision of this finding and accompanying records, we have been unable to research every exception. The information provided above indicates that through research conducted to date, questioned costs could be reduced by \$270,721. However, as we stated above, this does not indicate that we are agreeing with the remaining questioned costs. It is our intention to continue to research the exceptions, and we will be glad to share all documentation with the auditors. We believe that the Department and its contractors have accurately assessed eligibility for the WIC program but have failed in some cases to document the verification in PTBMIS according to the documented procedures. As stated in our response earlier, we will implement the improvements mentioned and will continue to look for ways in our highly complex operations and data system to assure appropriate controls in our eligibility determination process for WIC.

## **Auditor's Rebuttal**

As noted in Finding 5, management should not allow adjustments to system tables without ensuring that a change made to benefit one program does not negatively affect another program. By not adequately monitoring the PTBMIS system's implementation and use, management accepted overrides to system controls.

The results of our computer-assisted auditing techniques were originally provided to the Department of Health staff in November 2004. We examined and subjected to further audit tests any additional information provided by the department subsequent to that time that would support participant eligibility until Single Audit deadlines prevented us from continuing to do so. Many questioned costs resulting from audit procedures were reduced or eliminated by this procedure. We are required by the Single Audit Act to report the remaining questioned costs associated with items in question. The ultimate resolution of these questioned costs is the responsibility of the U.S. Department of Agriculture. Furthermore, the department's response acknowledges that participants' PTBMIS records identified in the finding contain deficiencies, and that the department staff will continue to spend time using sources external to the system, and in many cases external to the department, to verify and document participants' eligibility.

### Search of PTBMIS data fields

#### B. Detailed Data Errors in PTBMIS

- Regarding the default incomes of \$999,999, in situations where the system automatically defaults to this value and participants have been incorrectly determined adjunctively eligible, the department has stated that other fields where household member's income is documented are used to determine WIC eligibility. However, the department staff has not properly documented the verification of the participant's income in these situations; therefore, the costs associated with vouchers redeemed for these participants is still questioned.
- Regarding the 88 individuals with out-of-state addresses, we would have accepted documentation of proof of residency had it been provided during fieldwork or before Single Audit deadlines prevented us from examining the information.

### Review of participants' files

Although the Department of Health provided the participant's reported income for the period in question, there was no documentation of the verification of this income.

## **2. The department did not adequately monitor a high-risk WIC vendor**

### **Finding**

The Department of Health did not adequately monitor a high-risk food delivery vendor for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) when

information raising concerns about the vendor's integrity came to management's attention. Under the WIC program, the Department of Health is responsible for the fiscal management of, and accountability for, food delivery systems under its jurisdiction. To fulfill its responsibility, the department has contracted with the Davidson County/Metropolitan government for WIC services in the Nashville and Davidson County area. In order to provide these WIC services to the state, the Davidson County/Metropolitan government has entered into provider agreements for food delivery services pursuant to its contract with the Department of Health. Under the provider agreement, the food delivery vendor operated three WIC food stores in the Davidson County/Metropolitan area.

According to department officials, the following information came to management's attention:

- The WIC Director for Davidson County/Metropolitan government awarded a food delivery agreement to a vendor, which was owned by her secretary's husband, creating a potential conflict of interest. The vendor was the parent company of three WIC food delivery vendors within Davidson County.
- The vendor was allowed to maintain food stores which provided only WIC food items which could be redeemed with WIC vouchers, rather than traditional WIC retail food stores that provide WIC and non-WIC food items. These were the only non-retail food delivery stores in the state. WIC products at these stores were sold for amounts which were higher than for similar products at the traditional retail WIC vendors.

In addition, our review revealed that these three food stores had among the highest WIC voucher redemptions for the period ended June 30, 2004, when compared to voucher redemptions of other vendors in Davidson County and in other regions of the state. According to department officials, these three stores were located in close proximity to WIC clinics that issue WIC food vouchers to participants. Most food items in these food stores were priced higher than the average retail prices.

Our review and discussions with department staff revealed that the department had classified this food delivery vendor as high risk and had performed monitoring visits for all three food stores during the fiscal year ended June 30, 2004; however, it appears that considering the risk of fraud associated with the vendor and the three food stores, more extensive monitoring procedures should have been performed. Because of the importance of inventory to the WIC program, the monitoring procedures should have included performing invoice audits of the vendor's records to compare the claims for reimbursement against records of inventory purchases from wholesalers. (This tool would indicate evidence of fraud if the vendor billed the WIC program for more WIC items than were available in inventory.)

The documentation for the vendor monitoring does not include any indication that inventory records were reviewed or that any procedures that might uncover fraudulent transactions were performed. When a high risk of fraud exists with a vendor, the department must respond with extensive monitoring procedures to ensure the integrity of the WIC program and that WIC costs are appropriate.

## **Recommendation**

The Commissioner should ensure that the Director of WIC increases efforts to investigate high-risk vendors who pose a risk to the department by including invoice audits and other fraud tools when appropriate. The Director of WIC should continue to evaluate and monitor all of its food delivery vendors routinely.

## **Management's Comment**

We do not concur with the finding. According to Federal Regulations, Sec. 246.4(a)(14)(iv), the State agency must conduct routine monitoring visits on a minimum of five percent of the number of vendors authorized by the State agency as of October 1 of each fiscal year. Tennessee far exceeds the federal routine monitoring requirement in that all grocery vendors receive a minimum of two routine monitorings annually.

The State agency must identify high-risk vendors at least once a year using criteria developed by FNS and/or other statistically-based criteria developed by the State agency. Tennessee's high-risk list is developed based on the criteria in the Vendor Management Manual. A vendor's placement on the list does not mean they are necessarily committing fraud.

The State agency must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1 of each fiscal year. The State agency must conduct compliance investigations on all high-risk vendors up to the five percent minimum.

If more than five percent of the State agency's vendors are identified as high-risk, the State agency must prioritize such vendors so as to perform compliance investigations of those determined to have the greatest potential for program noncompliance and/or loss of funds. Our high-risk list comprises more than 5% of the total number of vendors and therefore we perform compliance investigations only on high-risk vendors. They are selected following a procedure in the Vendor Management Manual based on such factors as number of redemptions, accessibility of the buyers to vendor locations, whether there have been legitimate complaints about the vendor, etc.

Just because a vendor is listed as high-risk does not mean that we are required to do extra monitoring and/or compliance investigations. The vendor is on the high-risk list, however, if during routine monitoring visits, operations were observed and price reports indicated that each location was within the guidelines for their peer group.

The vendor's three locations received monitoring visits conducted by Davidson County Vendor Management staff in accordance with the CFR requirements during the fiscal year under review and in the months following.

- One location received monitoring visits on 10/10/03, 2/25/04, and 10/21/04. They also received required annual training on 9/26/03 and 9/26/04.

- One location received monitoring visits on 7/8/03, 2/20/04, 5/6/04, 8/26/04, 10/1/04, and 2/24/05. They also received required annual training on 9/26/03 and 9/26/04.
- One location received monitoring visits on 8/1/03, 9/4/03, 1/16/04, 5/16/04, 10/1/04, and 2/24/05. They also received required annual training on 9/26/03 and 9/13/04.

Such monitoring visits as those referenced above include:

- Product inventory adequate for voucher redemption patterns;
- Product prices (actual vs. reported);
- Interviews of cashiers and store managers;
- Review of past problems (reported by participants, other vendors, or clinic staff or identified from regional and state reports); and
- Observations made by the staff person conducting the visit.

During these visits, operations were observed and price reports indicated that each location was within the guidelines for their peer group. Additionally, regular price reporting shows prices have been within the appropriate range for the peer group. A vendor is deemed high-risk based on three system reports:

- 1) Comparing the vendor's average redemption price for these package types to other vendors in their peer group in their region (known as Variance Report 1).
- 2) Comparing the vendor's average redeemed price for all four voucher types combined to the previous quarter's average (known as Variance Report 2).
- 3) A review of the vendor's minimum and maximum redeemed amount for each of the four voucher types individually to determine if there is a consistent pattern (known as Variance Report 3).

Analysis of these reports was completed by Central Office staff. The analysis revealed that the reasons that the vendor was identified as high-risk were:

- 1) The majority of participants purchased the full food package because this is not a self-service environment compared to other vendors in Peer Group 3.
- 2) The total number of vouchers or the dollar total sales have increased and/or decreased significantly. As a WIC-only vendor, the caseload fluctuations affected the number of WIC transactions.
- 3) Fewer items result in a tighter price range within the product categories, i.e. cereal, juice, and cheese compared to broader price range by vendors in Peer Group 3.

These desktop analyses precluded the need for other compliance activities which are virtually impossible in a WIC-only store.

## **Auditor's Rebuttal**

As noted in the finding, the department's WIC staff did not perform the required monitoring for this high-risk vendor. In addition to routine monitoring, the *Code of Federal Regulations*, Title 7, Part 246, Section 12(j)(4)(i), requires that for high-risk vendors,

The State agency must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1 of each fiscal year. The State agency must conduct compliance investigations on all high-risk vendors up to the five percent minimum. . . . A compliance investigation of a high-risk vendor may be considered complete when the State agency determines that a sufficient number of compliance buys have been conducted to provide evidence of program noncompliance, when two compliance buys have been conducted in which no program violations are found, or when an inventory audit has been completed.

We discussed all monitoring efforts with the WIC Director and the WIC Food Delivery Administrator. According to the Director, because this vendor had WIC-only stores, staff were not able to perform compliance buys that are typically conducted at high-risk retail stores. However, even though compliance buys could not be performed, the Director and the Food Delivery Administrator stated that no other procedures were performed at this vendor's locations. As noted in the CFR and as recommended in the finding, the Director should have performed an inventory audit at each of the vendor's locations.

### **3. Segregation of duties over issuing vouchers needs improvement**

#### **Finding**

The Department of Health has not adequately segregated duties of employees responsible for the issuance of food vouchers to participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

The Department of Health uses the Patient Tracking and Billing Management Information System (PTBMIS) to issue WIC food vouchers to participants. Unless specifically restricted, anyone with access to PTBMIS can add or update participant information. In addition, some of these PTBMIS users can also print food vouchers. When food vouchers are printed, each voucher has a perforated receipt which is maintained by the user. Users who print vouchers are also responsible each day for reconciling their voucher receipts to system-generated reports of vouchers issued. Our review revealed that the department did not have controls in place to prevent users who had authority to print vouchers from also creating a participant case, adding participant information, and reconciling their own daily voucher issuances. Without appropriate management controls to prevent the same person from performing these tasks, the opportunity to print unauthorized vouchers is increased and the likelihood of detecting any unauthorized vouchers is decreased. In fact, according to department staff, at least one user has issued unauthorized vouchers in the past, and was detected when reported by another user.

Although the offender was terminated, the department did not implement effective controls to ensure that the problem did not recur.

As a compensating control, WIC supervisors reconcile the voucher receipts to system-generated reports of vouchers issued each month. During our testwork, we reviewed some of these reconciliations. Although we did not identify any inappropriate vouchers, inappropriate access allows users to enter an unauthorized record into the system which the reconciliations will not detect.

According to department staff, every two years, a sample of food vouchers is selected and traced to the hard-copy participant file. However, the same users who have authority to print vouchers also have access to the paper forms used to create participant paper files. Therefore, it is possible for those users to create a participant file to support unauthorized vouchers issued, making detection of unauthorized vouchers more difficult.

### **Recommendation**

The Department of Health should enact available system controls that will properly segregate duties to prevent employees from printing vouchers, adding and updating participant information, and reconciling their own voucher receipts. Such controls include restricting clerks from creating or updating participant records, implementing user authorizations and security reports to allow management to review user access and activity patterns, and monitoring the number and value of vouchers issued by person to determine if there are users who fall outside of expected issuance patterns. Management should also strengthen compensating controls by requiring participants to sign in upon arrival at the clinic and reconciling the vouchers issued to the sign-in logs in addition to the existing reconciliations.

### **Management's Comment**

We do not concur. Tennessee complies with the only federal requirement for separation of duties which is between the Certifying Professional Authority (CPA) and the voucher issuing clerk.

The current level of staffing in some clinics in the Department of Health prohibits further segregation of duties. In order to cover clinics when clerical staff members are sick, on annual leave or in training, clerks must be cross trained for the various screens in PTBMIS. All clerks are experienced in completing the registration screen and the primary clerk(s) issuing WIC vouchers have at least one back up person who can cover clinic when she/he is out. To disallow all of these duties to be accomplished by these staff persons would make clinics unable to serve their caseloads. Program monitoring of all of these functions (registration, updating the WICQ screen, voucher issuance and receipt report reconciliation) is done by three entities. Quality Management, the Regional WIC Staff and the State WIC Office all review records within the region.

The state WIC Program will enhance current monitoring methods in the future to select records to review that include vouchers that are high risk for fraud. We believe that this will be more indicative of potential problems. We are exploring the use of a new capability within PTBMIS, which was created to assist in HIPAA compliance that could perhaps provide additional data reporting abilities for detecting potential problems. The Department is currently pursuing a replacement for the PTBMIS and appropriate security controls will be built into that system. However, there will always be limitations based upon the staffing pattern limitations.

Participants currently sign in upon arrival at the clinic; however, matching the sign in sheet to the voucher receipt report would be a labor intensive duty that would not prevent fraud.

### **Auditor's Rebuttal**

Management's statement that "Tennessee complies with the only federal requirement for separation of duties which is between the Certifying Professional Authority (CPA) and the voucher issuing clerk" does not appear relevant to the finding. The finding does not report noncompliance with federal compliance requirements. Rather, it reports deficiencies in the system of internal control that could permit Department of Health employees to fraudulently issue WIC vouchers. The U.S. Department of Agriculture, as do other federal grantor agencies, establishes certain compliance requirements for its programs. It does not however tell grantees how to design systems of internal control. The grantees, in this case the Department of Health, are expected and required to have a properly designed and effectively operating system of internal control to prevent errors or fraud from occurring in the federal program.

#### **4. Security over PTBMIS needs improvement**

##### **Finding**

##### **Management cannot ensure that only appropriate staff have system access**

Auditors requested the Patient Tracking and Billing Management Information System (PTBMIS) user authorization forms for a sample of users from the Upper Cumberland region and from the Shelby County Metropolitan Health Department. The Department of Health Upper Cumberland region personnel were unable to locate 22 of the 25 PTBMIS User Authorization Forms (88%) selected for testwork, and created them after the fact to submit to the auditors. These forms were incomplete and lacked approval by user management. Testwork also revealed that the Shelby County Health Department has not implemented a User Authorization Form for PTBMIS; therefore, there is no documentation of management's authorization of user access to the system.

Furthermore, as noted in finding 6, the Department of Health does not have information systems policies and procedures to govern the user authorization process. Approval of users' access should be documented by designated management personnel before system access is

granted, and the approved authorizations should be maintained regionally and reviewed periodically by department management in the central office.

#### PTBMIS System Security report was not used

Department personnel have not implemented user-level system security reporting for PTBMIS. Such security reports should be used to identify the level of access each user has to system screens, data, and processes. According to department staff, it was possible to create the reports, but the department had not done so. Routinely monitoring access activities of system users can help identify significant problems, such as violations to segregation of duties or unauthorized access to sensitive information, and can help deter users from attempting inappropriate or unauthorized activities.

The failure to complete and maintain user authorization forms and to produce and review security reports could allow users access exceeding that necessary to perform job responsibilities. In addition, unauthorized access increases the risk that unauthorized changes can be made to the system without detection.

#### **Recommendation**

The Commissioner should ensure that the department's Office for Information Technology (OIT) creates and implements policies and procedures for the user authorization process. The Director of OIT should obtain security authorization forms for each user, including the level of access required, what screens the user should have access to, and management's approval of that access. These forms should then be maintained by OIT management at the regional level and periodically reviewed by management at the central office. OIT should also generate system security reports of PTBMIS user authorities and activities, carefully review the reports, and take appropriate action. All reviews and actions should be fully documented and reviewed by top management for adequacy, completeness, and corrective actions.

#### **Management's Comment**

We concur. Policies and procedure for PTBMIS user authorization processes will be implemented that will require PTBMIS users to document on the existing security authorization form the specific access to functions for which PTBMIS provides security controls including the ability to print WIC vouchers. These forms will be maintained at the regional office for regional and local users and in the Office of Information Technology for all central office users. Periodic reviews will occur to assure compliance with this procedure.

**5. Management could not provide adequate assurances that no improper program changes and modifications had occurred**

**Finding**

**Program change documentation for PTBMIS was missing, incomplete, or not approved by management**

The Department of Health uses the Patient Tracking and Billing Management Information System (PTBMIS) to maintain the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) participants' eligibility information. Department personnel were unable to locate documentation for 9 of 15 program changes (60%) selected for testwork. In addition, although the department provided documentation for six program changes, the documentation was incomplete and lacked approval by management. Management is responsible for establishing effective controls for the program change process, which include documentation for user acceptance testing, documentation of when the program change migrated from the test environment to the production environment, and management's approval of the program change. All documentation related to program changes should be maintained by management. Without a proper program change approval process, programs could be modified and changed without management's knowledge, resulting in a system that does not meet user needs and stated objectives.

**System administrators had improperly circumvented management approvals, resulting in errors in system data**

PTBMIS is used in each of the department's seven regions, as well as in the central office. During the course of testwork, auditors identified weaknesses that were the result of system administrators changing data tables within the regions to allow entries that were not approved by the central office. The affected records contained errors in the data which prevented the department from documenting that participants had provided proof of identity, residency, and income as required by the *Code of Federal Regulations*, Title 7, Part 246. Also, according to the department's disaster recovery plan, if one of the regional systems fails, staff should be able to load data from that system in any of the other unaffected regions and continue day-to-day operations. Therefore, in addition to an increased risk of creating fictitious or invalid participant records, system administrators' changes to tables jeopardize critical disaster recovery efforts.

**Recommendation**

The Commissioner should ensure that appropriate Office of Information Technology staff complete and maintain program change documentation. Requests for changes, their approvals, change requests submitted to the vendor, testing plans, and test results of the amended code should all be documented. In addition, the Commissioner should require that the central office approve all requests for changes to programs and system tables in the department's regional and metropolitan offices before the changes are implemented. Central office management should carefully monitor system and table change requests, review all changes after they have been

implemented to ensure that no unexpected changes were made, and take any necessary corrective action to ensure that unauthorized requests are detected and corrected.

### **Management's Comment**

We concur. In response, OIT is in the process of implementing a 'Change Control Procedures' policy. This policy requires documentation and sign-offs at every stage of the systems revision process. Stages include initiation of change request, written specifications, vendor time and cost quote, test plans and testing, final approval from user, and implementation.

Regarding tables, PTBMIS contains hundreds of tables. Most of the tables are maintained and updated centrally. However, PTBMIS is a distributed system and some tables contain data that is specific to a region. Therefore, tables containing region specific information must be maintained at the regional level.

For those tables that are maintained centrally, we will periodically run a job that will compare all relevant tables to ensure that table entries have not been added, deleted or changed.

In addition, the Bureau of Health Services has drafted a policy to be added to the HSA Policy and Procedure Manual which addresses this issue. This policy is currently under review and should be finalized within forty-five days.

## **6. The department does not have information systems policies and procedures**

### **Finding**

The Department of Health's Office of Information Technology has not established information systems policies and procedures to direct its operations. Documented information systems policies and procedures are necessary to ensure that changes to programs, databases, and system tables; development of system applications; physical security; and review and supervision of staff activities are in accordance with management's intentions.

Without these policies and procedures, the department does not have sufficient guidance to effectively direct, control, operate, and maintain any of its systems. In addition, the absence of policies and procedures influences many aspects of information systems operations, including issues identified in this report such as the inadequate documentation of program changes related to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) module of the department's Patient Tracking and Billing Management Information System (PTBMIS) and the lack of proper security over system access.

## Recommendation

The Department of Health should establish and implement appropriate policies and procedures over its information systems operations which are designed to provide guidance for the execution of effective daily operations.

## Management's Comment

We concur. The need for the establishment of appropriate policies and procedures was addressed at the department's Health Executive Management Advisory Committee (HEMAC) meeting on March 31, 2005. The HEMAC directed the creation of appropriate policies and procedures by the department's Office of Information Technology. The initial draft of the policies and procedures will be presented to the HEMAC for their review and possible approval in June 2005.

### **7. The department did not monitor the required percentage of local agencies or clinics for the WIC program**

#### Finding

The department did not monitor the required percentage of local agencies or clinics within the department's federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

The *Code of Federal Regulations*, Title 7, Part 246, Section 19(b) 3, states,

The State agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater. The State agency may conduct such additional on-site reviews as the State agency determines to be necessary in the interest of the efficiency and effectiveness of the program.

In addition, the *Code of Federal Regulations*, Title 7, Part 246, Section 2, defines a state agency as "the health department or comparable agency of each State. . . ." The monitoring plan prepared by the department defines "local agency" as one of 14 regions. The *Code of Federal Regulations*, Title 7, Part 246, Section 19(b)2, states, "Monitoring of local agencies must encompass evaluation of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery systems."

We examined documentation of the monitoring reviews performed by the department for the federal fiscal year ended September 30, 2004. Our review revealed that:

- The department did not monitor two of the ten local agencies (Knox and Sullivan regions) at least once every two years. The department monitored these regions on August 30, 2001, and September 4, 2002, respectively.
- Although the department monitored the Upper Cumberland region, the review did not include the required 20% of all clinics in the region. The review of the Upper Cumberland region only included 14% of the clinics in the region.

Proper monitoring is essential to ensure that program objectives are achieved. When monitoring is not performed, the risks of fraud and actions contrary to the best interests of the program increase.

### **Recommendation**

The Commissioner should ensure that the WIC Director and staff perform all required monitoring reviews and that the reviews cover all required areas. Reviews should be adequately documented to support all work performed and conclusions reached.

### **Management's Comment**

We concur that the scheduled monitoring visits were missed for Knox and Sullivan Counties. The Department of Finance and Administration (F&A) had responsibility for coordinating monitoring reviews of the WIC contracts with metropolitan counties including Knox and Sullivan. The responsibility for contract review was returned to individual agencies around February 2004. Perhaps these monitoring reviews were scheduled, but not completed by F&A when it was decided that the monitoring of the contracts would be returned to the Department of Health.

It is important to note that although a routine program monitoring visit was not done, a technical assistance visit from the WIC Central Office staff was done in the identified time period. Technical assistance visits are made to the regions in the off year of the two-year period when they are not being monitored. Additionally, the state staff conducted a monitoring review of Vendor operations for both Knox and Sullivan counties.

We concur that the required 20% of the clinics in the Upper Cumberland Region were not monitored. Only two clinics were monitored and had we monitored three clinics, we would have met the requirement to monitor 20% of the clinics. It was an oversight because of staffing shortages. During the time that this review should have been conducted, there was a staffing change and the Program took over the monitoring of the metros from F&A.

To our knowledge, this was the only time that the required number of clinics has not been monitored and we will strive to insure that it never occurs again.

**8. The Department of Health has not followed its policy to identify and prevent dual participation in the WIC and CSFP programs**

**Finding**

The department did not comply with provisions of the *2003-2004 WIC Manual State of Tennessee* concerning requirements for dual participation reports, which are used to prevent individuals from participating in more than one Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program or participating in both WIC and the Commodity Supplemental Food Program (CSFP). The manual states the following:

A report that identifies potential dual participants across the State within the WIC sites and between WIC and CSFP will be generated monthly at the WIC Central Office and mailed to the Regional WIC Directors for investigations. The report will be mailed by the 7<sup>th</sup> of each month. The purpose of the report is to identify participants that may be participating in more than one WIC program or between WIC and CSFP within the state of Tennessee. The match will show up on the report of the site where the person was enrolled last. That region is responsible for initiating the investigation and reporting the results. The report must be investigated and the results of the investigation returned to the WIC Central Office within (30) days of the receipt of the report . . .

In addition, according to the *Code of Federal Regulations*, Title 7, Part 246, Section 7(l)(1)(i), the state agency “shall be responsible for . . . the prevention and identification of dual participation within each local agency and between local agencies.”

Our testwork revealed that for 7 of the 12 months tested (58%) the following weaknesses were noted:

- For four months, the central office did not generate dual participation reports for any of the regions.
- For two months, there was no evidence the central office received responses related to the investigations of the dual participation reports from four regions.
- For one month, the central office did not provide a dual participation report to the Knox County region.

**Recommendation**

The Commissioner should ensure that the WIC Director and staff generate and provide all dual participation reports to the regions. The WIC Director should monitor all regions to ensure investigation is performed as required and that appropriate actions are taken to address the results of the investigations.

## Management's Comment

We concur that prior to the period July 2004, the WIC Manual established specific timeframes that could not always be met because of operational issues. As of July 2004, the WIC Manual was modified removing the specificity for the date that a report would be run. Tennessee continues to exceed the minimum requirement in the CFR Title 7, Part 246, Section 7(l)(1)(i) “. . . including actions to identify suspected instances of dual participation at least semiannually.” Effective January 2004, a tracking tool was developed to track regions that are past due with their responses.

### **9. The department understated expenditures for the Immunization Grants program on the Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2004, by \$4.7 million**

#### Finding

The Department of Health failed to report all program expenditures for the Immunization Grants program on the *Schedule of Expenditures of Federal Awards* (SEFA). For the fiscal year ended June 30, 2004, the department failed to report \$4,717,080.06.

The Communicable and Environmental Disease Services (CEDS) section prepares an expenditure report, which should include all expenditures used for the purchase of vaccine for the Immunization Grants program, and sends the report to Fiscal Services for supporting documentation to be used in the preparation of the department's SEFA. CEDS appropriately reported expenditures of all private providers that administer vaccines. However, CEDS did not include all expenditures for the state's county health departments in the expenditure report sent to Fiscal Services. This resulted in an understatement of expenditures on the SEFA. The Department of Finance and Administration's instructions for compiling the SEFA define the value of cash disbursements, including non-cash assistance, as the "actual cash disbursements made or fair market cash value of non-cash assistance used during state fiscal year. . . ." Office of Management and Budget Circular A-133 requires the inclusion of the value of non-cash assistance in the SEFA or disclosure of the amount in the notes to the SEFA. After this was brought to management's attention by the auditors, management prepared a revised SEFA.

The omission of a portion of the federal assistance provided through the Immunization Grants program affects the determination of major federal programs for purposes of the state's Single Audit. It also provides misleading and inaccurate information to users of the Single Audit.

#### Recommendation

The CEDS Director should ensure that staff prepare accurate expenditure reports for vaccines ordered with Immunization Grants funds. The Fiscal Services division should establish proper accounting controls for all vaccine ordered and received, and ensure that accurate records

are maintained by all responsible parties so that the Schedule of Expenditures of Federal Awards is properly prepared.

### **Management's Comment**

We concur. The basis of the under reporting of non-cash assets of the program was due to a misunderstanding of the information requested by an accountant from the department's Fiscal Services staff. The SEFA has been corrected and an amended report on the non-cash assets was filed with the Department's Fiscal Office. That report showed a non-cash disbursement from the Immunization Program of \$22,206,031.85 for FY 2004.

### **10. The department did not comply with program requirements and special test provisions for the Immunization Grants program for fiscal year ended 2004**

#### **Finding**

The Department of Health has not ensured that providers in the Immunization Grants program have maintained adequate documentation of vaccinations given. Documentation has not been adequate to ensure vaccinations were provided to eligible individuals and to ensure that the vaccinations were administered in accordance with program regulations.

The Department of Health contracts with private clinics to obtain vaccination services for individuals who are eligible for the Immunization Grants program. We performed testwork at 3 of 500 clinics (Madison Meharry Family Medicine Clinic, Metro Nashville General Hospital, and Vanderbilt Clinic) for the program and found the following problems:

- For 2 of 82 uninsured immunization patients tested (2%), the provider (Madison Meharry Family Medicine Clinic) charged the patient a vaccine fee greater than the maximum fee established by the United States Department of Health and Human Services (DHHS). The Tennessee Vaccine for Children policies and procedures, Section 1, VFC provider enrollment, 1.2(f), states that providers are, "not to impose a charge in any amount higher than the maximum fee established by DHHS for the administration of the vaccine." The fee limit was \$13.70 for fiscal year ended June 30, 2004, but the amount charged was \$15.00.
- For another 2 of 82 patient files tested (2%), the providers did not have all of the vaccination information documented. Madison Meharry Family Medicine Clinic did not include the lot number for one file. In addition, Metro Nashville General Hospital could not provide the "Patient Immunization Form," which documents the immunization received, the manufacturer, and the lot number of the vaccine, for one file. *The United States Code*, Title 42, Chapter 6A, Subchapter XIX, Part 2, Section 300aa-25(a), requires,

Each health care provider who administers a vaccine set forth in the Vaccine Injury Table to any person shall record, or ensure that there is

recorded, in such person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) with respect to each such vaccine—

- (1) the date of administration of the vaccine,
- (2) the vaccine manufacturer and lot number of the vaccine,
- (3) the name and address and, if appropriate, the title of the health care provider administering the vaccine, and
- (4) any other identifying information on the vaccine required pursuant to regulations promulgated by the Secretary.

To ensure the integrity of the Immunization Grants program, the department must monitor to ensure that all providers comply with all provisions of the program.

### **Recommendation**

The Commissioner and staff of the Communicable and Environmental Disease Services section should provide additional training of and oversight over providers administering vaccinations in order to ensure that providers are knowledgeable of and comply with program requirements.

### **Management's Comment**

We concur. We have education and audits in place as part of the Vaccine for Children's (VFC) Program. This education and on-site formal compliance reviews in VFC practices have been markedly enhanced this year as directed by the CDC. We believe this will result in improved documentation of vaccine information.

The federal VFC Program has not permitted the Tennessee Department of Health to enforce the Medicaid fee cap rule for providers. The CDC has recently told us this policy is under review and that a change will be forthcoming though they were not able to share the details with us at this time.

## **11. The controls over the VACMAN computer system need improvement**

### **Finding**

The department's controls over access to the federal Vaccine Management System (VACMAN), which is the computer system that the department uses to place vaccine orders with the federal Centers for Disease Control (CDC), need improvement. The VACMAN system was first installed in 1994. A review of the VACMAN system revealed the following weaknesses:

- All employees in the department's Communicable and Environmental Disease Service (CEDS) section with access to VACMAN can enter new providers into the system and can generate orders for vaccine.
- CEDS management does not approve Provider Agreements, which are used as the documentation to set up providers in the system.
- CEDS staff did not reconcile the providers listed in the VACMAN system to the actual provider agreements.

When controls over the VACMAN system are weak, the risk of misappropriation, misuse, or waste of vaccine is increased.

### **Recommendation**

The CEDS Director should improve controls over the VACMAN computer system which include segregating duties and restricting access to the system as appropriate, performing reconciliations of provider agreements to providers entered into the system, and increasing oversight of providers to ensure vaccines are administered appropriately.

### **Management's Comment**

We concur. The Immunization Program will take further steps to minimize the possibility of fraud or abuse. First, the Immunization Program will institute a process whereby a provider's medical license is verified as on file with the state and current before the provider is authorized to enroll in the program; this verification will be dated and initialed on the enrollment form. Additionally, the person responsible for verification and authorization of credentials will not generate orders in the VACMAN system. No orders will be generated until the credentials check and authorization are completed.

Purchases of vaccine off the federal contracts through the VACMAN 3 system are restricted to individuals who possess a CDC-issued digital certificate for VACMAN and a password – a two-factor authentication system. This security approach markedly enhances physical security of the software/hardware.

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## STATUS OF PRIOR AUDIT FINDINGS

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### State of Tennessee *Single Audit Report* for the year ended June 30, 2003

Audit findings pertaining to the Department of Health were included in the *Single Audit Report*. The updated status of these findings as determined by our audit procedures is described below.

The current audit disclosed that the Department of Health has taken action to correct all previous audit findings:

- monitoring of subrecipients' audit reports is not adequate;
- the department did not account for the disposition of all Food Instruments within the period required by federal regulations;
- the department's failure to inform subrecipients of all CFDA numbers, program names, and amounts of federal funds awarded; and
- one WIC clinic did not maintain the required documentation for participants, and therefore eligibility could not be substantiated.

### Most Recent Financial and Compliance Audit

Audit report number 04/064 for the Department of Health, issued in February 2005, contained certain audit findings that were not included in the State of Tennessee *Single Audit Report*. These findings were not relevant to our current audit and, as a result, we did not pursue their status as a part of this audit.

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## OBSERVATIONS AND COMMENTS

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### FRAUD CONSIDERATIONS:

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.