Department of the Treasury

For the Year Ended
June 30, 2004

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

January 6, 2005

Members of the General Assembly
and
The Honorable Dale Sims, Treasurer
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of the Treasury for the year ended June 30, 2004.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The department's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Department of the Treasury

For the Year Ended June 30, 2004

AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of the Treasury's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements of the Criminal Injuries Compensation Fund, the Risk Management Fund, the Chairs of Excellence Fund, the Flexible Benefits Plan, the Baccalaureate Education System Trust-Educational Services Plan, and the State Pooled Investment Fund; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

User Controls Over Claims Are Not Adequate

The department does not adequately limit access to functions within the Division of Claims System, which is used to process tort claims and property damage claims filed by state employees against the state. Also, access to functions within the Criminal Injuries System, which is used to process victims' compensation claims, is not adequately limited.

Audit Report
Department of the Treasury
For the Year Ended June 30, 2004

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Department of the Treasury
For the Year Ended June 30, 2004

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The State Treasurer, a constitutional officer, is elected by a joint session of the General Assembly for a two-year term. Although no duties are prescribed by the constitution, the functions and duties of the office are assigned through various statutes. These functions and duties include maintaining accountability for and management of public funds and administering the Tennessee Consolidated Retirement System, the State Pooled Investment Fund (including the Local Government Investment Pool), the Uniform Disposition of Unclaimed Property Act, the Criminal Injuries Compensation Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust, and the state's Deferred Compensation and Flexible Benefits plans. The Treasurer also administers the settlement of claims against the state through the Tennessee Claims Commission and the Division of Claims Administration.

The Treasurer is required by statute to be a member of many boards and commissions, including the following:

Board of Equalization
Board of Trustees of the Tennessee Consolidated Retirement System
Funding Board
Public Records Commission
State Building Commission
State Insurance Committee
State School Bond Authority

Tennessee Competitive Export Corporation
Tennessee Housing Development Agency
Tennessee Local Development Authority
Tennessee Student Assistance Corporation

ORGANIZATION

The department is divided into 11 major sections: Staff Services, Investments, Baccalaureate Education System Trust (BEST), Information Systems, Records Management, State Trust and Lock Box, Tennessee Consolidated Retirement System (TCRS), Accounting, Unclaimed Property, Claims Administration, and Risk Management. The TCRS is audited and reported on separately.

The **Staff Services** section includes personnel administration, budgeting and fiscal control, administrative services, research and development of special projects, internal audit, and legal services.

The **Investments** section invests the pension fund to maximize the return on investments and to protect the retirement system's assets. This section also invests the state's available cash in certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and agency obligations, and certain obligations of the State of Tennessee.

The **BEST** section is responsible for the operation of the state's prepaid college tuition plan (Educational Services Plan) and college savings plan (Educational Savings Plan).

The **Information Systems** section provides the department with data processing services. The **Records Management** section provides physical facilities management, forms control and copying, and safekeeping. **State Trust and Lock Box** is responsible for remittance receiving and the operation of the Federal Reserve wire transfer facility used to send, receive, and transfer funds for the State of Tennessee.

The **Accounting** section is responsible for maintaining detailed accounting records for various programs administered by the department. This includes maintaining general ledger accounting and reporting for the Tennessee Consolidated Retirement System, the Chairs of Excellence Program, the Local Government Investment Pool, the Cash Management Investment Program, the Risk Management Fund, the Criminal Injuries Compensation Fund, the Flexible Benefits Plan, and the Baccalaureate Education System Trust. The section is also responsible for reconciling approximately 80 open bank accounts and maintaining the state's warrant reconciliation system (Account Reconciliation Package, or ARP).

The **Unclaimed Property** section takes custody of abandoned property (bank accounts, insurance policies, etc.) and attempts to locate the rightful owners or heirs. The Division of **Claims Administration** administers the Workers' Compensation program for state employees and the Criminal Injuries Compensation Fund. The division reviews and determines eligibility for payment from the Criminal Injuries Compensation Fund. Payments are made as funds become available.

The **Risk Management** section administers a variety of insurance programs for the state. These programs provide protection to the state against property damage, boiler explosion, and employee dishonesty.

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

AUDIT SCOPE

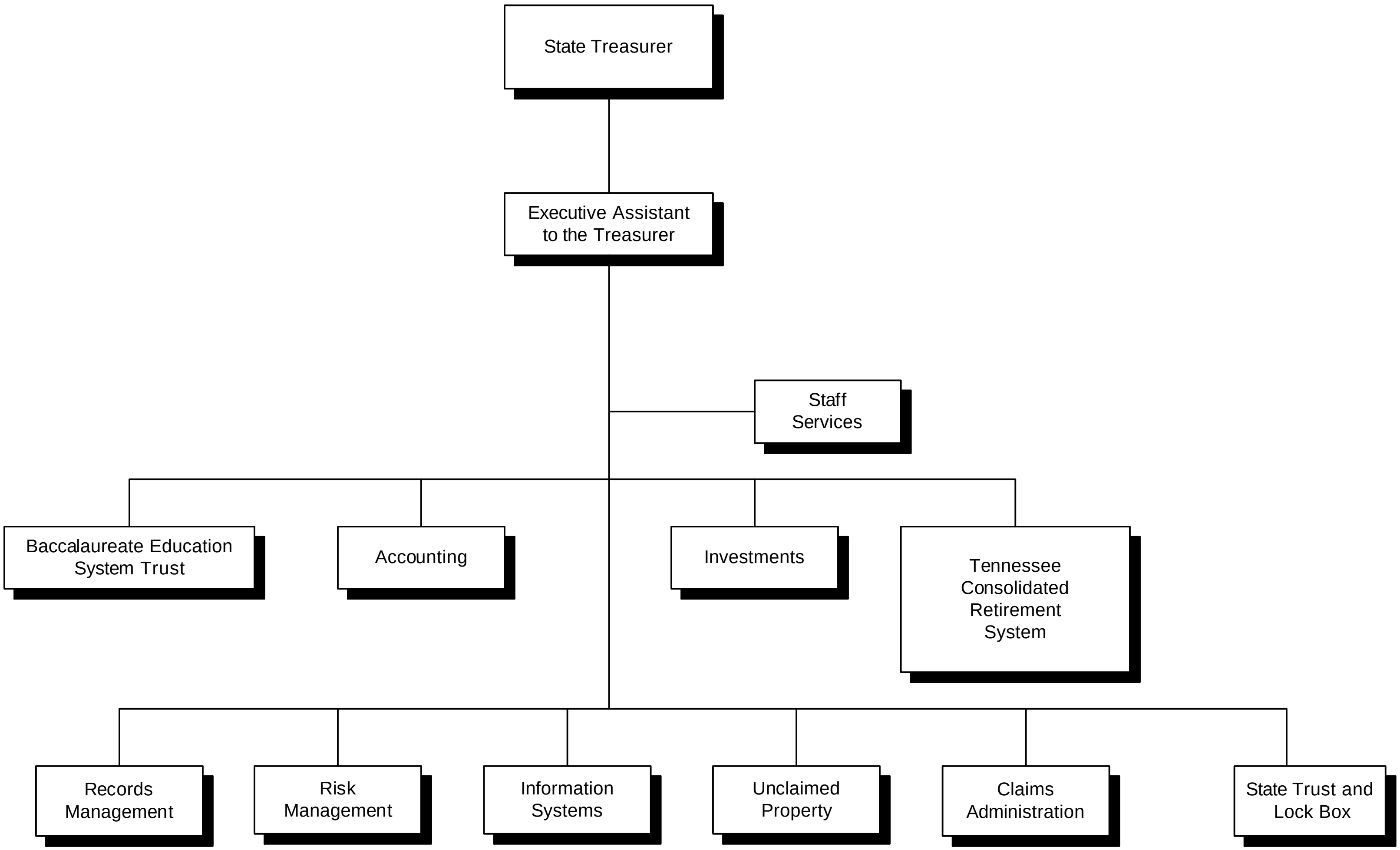
The audit was limited to the period July 1, 2003, through June 30, 2004, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The operations of the Department of the Treasury are accounted for in the general fund of the State of Tennessee. The department administers the Tennessee Consolidated Retirement System, pension trust funds; the Criminal Injuries Compensation Fund, a special revenue fund; the Risk Management Fund, an internal service fund; the Chairs of Excellence Fund, a permanent fund; the Baccalaureate Education System Trust-Educational Services Plan, a private-purpose trust fund; the Flexible Benefits Plan, an employee benefit trust fund; and the State Pooled Investment Fund, an external investment pool (which includes the Local Government Investment Pool).

This audit included all of the above funds except for the Tennessee Consolidated Retirement System, which is reported on in a separate audit report. The following allotment codes within the State of Tennessee Accounting and Reporting System were covered by this audit:

State Treasurer’s Office	309.01
Certified Public Administrators	309.02
Criminal Injuries Compensation	313.03
Risk Management Fund	313.10
Unclaimed Property	313.20

Department of the Treasury
Organization Chart



OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the Department of the Treasury's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements of the Criminal Injuries Compensation Fund, the Risk Management Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, and the State Pooled Investment Fund;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; and

3. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDING

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 the Treasury filed its report with the Department of Audit on June 14, 2004. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the department has corrected the previous audit finding concerning the inadequate reconciliation of collateral.

OBSERVATIONS AND COMMENTS

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 increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We also 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.

AUDIT COMMITTEES RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that entities with boards establish audit committees. We recommend that audit committees be established for the various boards governing the Department of the Treasury's funds. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each entity. In establishing the audit committee and creating its charter, each board should examine its entity's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its entity in general as well as the history of its particular entity with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of entity assets. Also, the board and the audit committee should keep in mind that entities receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the entity as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the entity.
2. Formally reiterate, on a regular basis, to the board, entity management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the entity, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the entity's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the entity management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from entity management or staff.
4. Develop a formal process for assessing the risk of fraud at the entity, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the entity their responsibilities to report allegations of fraud, waste, or abuse at the entity to the committee and the Comptroller of the Treasury's Office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller's Office when fraud is detected.
7. Develop and communicate to the board, entity management, and staff a written code of conduct reminding those individuals of the public nature of the entity and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the entity; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect entity assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies,

and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the entity.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the entity and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. An express recognition that the board, the audit committee, and the management and staff of the entity are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.
6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the boards any questions they might have about the creation of their particular audit committees. There are also other audit committees which have already been established at other state agencies that the boards may wish to contact for advice and further information.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of the Treasury filed its compliance report and implementation plan on June 30, 2004.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans,* issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the financial statements of the Criminal Injuries Compensation Fund, the Risk Management Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, and the State Pooled Investment Fund for the year ended June 30, 2004, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

December 3, 2004

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

Dear Mr. Morgan:

We have audited the financial statements of the Criminal Injuries Compensation Fund, the Risk Management Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, and the State Pooled Investment Fund as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. As discussed in Note A.4. to the financial statements of the Risk Management Fund, the State of Tennessee's property insurance program, formerly accounted for in the General Fund, has been combined with the former Claims Award Fund to create the Risk Management Fund. Also as discussed in Note A.4., management has changed the classification of net assets from restricted to unrestricted. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Department of the Treasury and the funds it administers are part of the primary government of the State of Tennessee.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted: User controls over claims are not adequate. This condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the department's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the department's management in a separate letter.

The Honorable John G. Morgan
December 3, 2004
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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,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDING AND RECOMMENDATION

<u>User controls over claims are not adequate</u>

Finding

The department does not adequately limit access to functions within the Division of Claims System (DOCS), which is used to process tort claims and property damage claims filed by state employees against the state arising pursuant to Section 9-8-101 et seq., *Tennessee Code Annotated.* Also, access to functions within the Criminal Injuries System (CIS) is not adequately limited. CIS is used to process victims' compensation claims pursuant to Section 29-13-101 et seq., *Tennessee Code Annotated.* For both DOCS and CIS, which employees have access and the type of access permitted are critical to the integrity of the claims process. When inadequate system controls permit individuals to circumvent other claims controls, fraud could occur and go undetected.

When a Risk Management Fund tort or employee property damage claim form is received by the Division of Claims Administration (DCA), generally the DCA Director assigns the claim to an examiner. (Exceptions to the general rule are noted later in the finding.) The director indicates assignment (by examiner's initials) on the claim form. The director then forwards the claim form to the secretary. According to procedures, "The secretary enters the claim information onto DOCS, including but not limited to name, address, SSN, date of accident, date of receipt, department against which the claim is filed, and claim type." This is referred to as initiating a claim. The "Add" function in DOCS allows the secretary to complete this claims initiation process. The secretary then sends the department against which the claim is filed a "request for departmental report" to obtain the state employee's side of the story or the state agency's response to the allegations raised against it or its employees. This procedure not only results in additional information needed to process the claim but also provides assurance that the claim is legitimate and provides evidence that the events underlying the claim actually occurred.

The "Modify" function in DOCS enables the examiner to process the claim that has already been entered and then key the claim as tentatively approved or denied. After the examiner has entered a claim in "examiner approved" status, a "claim recommendation" for payment sheet is printed by DOCS. The DCA Director, Criminal Injuries (CI) Supervisor, or Claims Senior Examiner then reviews the recommendation and supporting documentation. If the DCA Director, CI Supervisor, or Claims Senior Examiner deems the information complete and correct, she authorizes payment by signing the "claim recommendation" and accessing the "Approval" function in DOCS to approve the claim for payment.

A review of the DOCS user functions revealed that 8 of 25 DOCS users (32%) had access to both the "Add" and "Modify" functions. This review indicated that all three examiners had been granted access to the "Add" function. The review also revealed that two secretaries had access to the "Modify" function. Additionally, the DCA Director, the CI Supervisor, and the State Treasurer were provided with both "Add" and "Modify" capabilities.

When a Criminal Injuries Compensation Fund claim form is received, generally the CI Supervisor assigns the claim, and then the secretary enters the claim information into CIS. (Exceptions to the general rule are noted later in the finding.) The "Add" function in CIS, as in DOCS, enables the secretary to complete the claims initiation process. The secretary then sends out a request for a "report of district attorney" to obtain additional supporting information including, but not limited to, evidence that an offense against the claimant actually occurred that caused personal injury or death. This procedure not only allows the division to obtain additional information necessary to process the claim but also enables the division to gather evidence from an external party to provide assurance that the claim is legitimate.

Once the claim is entered into CIS by the secretary, the claim form and other supporting documentation are forwarded to the assigned examiner. After an investigation of the circumstances underlying the claim and review of the supporting documentation, the examiner approves or denies the claim. If the claim is approved, the examiner keys the payments into CIS, and CIS automatically prints an "approval sheet." The examiner signs the "approval sheet" and forwards this and the supporting documentation to the DCA Director, CI Supervisor, or CI Senior Examiner for approval of the payments scheduled by the examiner. If the DCA Director, CI Supervisor, or CI Senior Examiner deems the information complete and accurate, she authorizes payment by signing the "approval sheet" and accessing the "Approval" function in CIS to approve the claim for payment. The "Modify" function enables the examiner to schedule the payment into CIS before final approval by the DCA Director, CI Supervisor, or the CI Senior Examiner. Payments are not made until after final approval.

A review of the CIS user functions revealed that 7 of 23 CIS users (30%) had access to both the "Add" and "Modify" functions. This review indicated that all three examiners had been granted access to the "Add" function. The review also revealed that three secretaries had access to the "Modify" function. Also, the CI Supervisor was provided with both "Add" and "Modify" capabilities.

In addition, the secretaries with access to DOCS and CIS receive certain checks (e.g., checks that need a special mailing label) and are responsible for mailing those checks. Since the secretaries have access to the "Modify" function, controls are compromised and a lack of segregation of duties exists.

If access to functions within DOCS and CIS allow an employee to initiate and modify a claim, that employee could create and approve a fraudulent claim that appears to be adequately supported. If the claim never reaches the secretary, the "request for departmental report" or "report of district attorney" would never actually be sent and could be forged; therefore, the controls in place to confirm legitimacy of the claim would be circumvented. The employee could then approve the fraudulent claim for payment. Although the DCA Director, CI Supervisor, or a Senior Examiner has to give final approval for the payment, the claim would appear adequately supported by the forged documents. A review of all claims initiated and assigned in DOCS and CIS during the fiscal year revealed one claim for $347.98 that was initiated by the same user to whom the claim was assigned. Further review of this claim was performed by the auditor by contacting the parties involved. Based on these discussions, it appears that the claim was legitimate.

As stated earlier, a tort or property damage claim is generally assigned by the DCA Director, and a CI claim is generally assigned by the CI Supervisor. When these individuals are absent, claims may be assigned by another supervisor or a senior examiner. However, no record is maintained of who assigns a claim; therefore, it is not possible to determine whether someone had assigned a claim to himself or herself.

Although information from external third parties is requested by the secretaries, such as from the department involved or the district attorney, if the information is not received, the follow-up would be handled by the assigned examiner. Having the ability to assign, initiate, modify, and follow up on a claim creates an inadequate segregation of duties and increases the risk of fraud.

Recommendation

The department should initiate a review of access to the claims processing systems. Those employees with more access than is required for the completion of their job duties should have their access reduced accordingly. Employees should not have the authority to both initiate and modify the same claims. The Treasurer should only have the ability to view claims. Further, the individuals assigning claims should not be allowed to assign claims to themselves. The name of the assignor of each claim should be documented in the system or on the face of the claim form. The individual responsible for approving the claim payments should ensure that the examiner who processed the claim was not also the assignor.

Management's Comment

We concur. In October 2004, a new consolidated claims system, Gemini, replaced the 10-year-old DOCS and CIS systems. The Gemini system has many program enhancements, including security and internal controls. As part of implementing the new system, we established security roles to control access to Gemini and enforce segregation of duties. As is our business practice, management continues to evaluate internal controls and to implement improvements as needed.