

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

Department of Human Services

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

**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

FINANCIAL AND COMPLIANCE

Charles K. Bridges, CPA
Assistant Director

Scarlet Z. Sneed, CPA, CFE
Audit Manager

Herb Kraycirik, CPA
In-Charge Auditor

Bridget Carver, CFE

Brian Brechon

Demaro Isom

Wendi Goodwin

Tabitha Peden, CFE

Sheilah Pride, CFE

Staff Auditors

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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**Department of Human Services
For the Year Ended June 30, 2004**

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**Department of Human Services
For the Year Ended June 30, 2004**

EXECUTIVE SUMMARY

Findings

- FINDING 1 Controls over Vocational Rehabilitation equipment need to be strengthened. One piece of equipment could not be found. Others had erroneous information in the state's equipment tracking system. Also, the inventory process had not been completed for approximately 10% of the equipment assigned to the program.
- FINDING 2 The Division of Rehabilitation Services has not always properly maintained client case files. One of 40 cases selected for client eligibility testwork (2.5%) could not be located.
- FINDING 3 The department did not always properly monitor organizations that provided services for the Division of Rehabilitation Services. Organizations that provide services to this program were permitted to be paid based only on information shown on an invoice for reimbursement.
- FINDING 4 The Department of Human Services did not reduce Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements. Federal regulations require the state to reduce benefits not less than 25%. None of the 25 applicable cases tested had benefits reduced appropriately. This was a finding in the prior three audits.
- FINDING 5 The department has not always properly monitored its contractors in the Temporary Assistance for Needy Families program. The contract review group has not been monitoring all of the program's contractors, and some reviews were not always adequate.
- FINDING 6 The department did not comply with Child Support Enforcement regulations. The department was not timely in establishing support obligations and initiating interstate cases. The department's annual self-assessment included cases that should not have been included in the self-assessment, and erroneous conclusions were made about others.
- FINDING 7 The Department of Human Services did not follow its approved cost allocation plan. For the quarter ended June 30, 2004, the department used the wrong cost allocation method to allocate the administrative costs of the department's Office of General Counsel.

FINDING 8 For the fiscal year ended June 30, 2004, the department failed to monitor organizations that provide services for the Child Care program, and the results of monitoring visits did not always agree with conclusions in the monitoring reports. Some child care program contractors were paid based only on the information shown on an invoice for reimbursement. Some of the monitoring reviews were inadequate.

FINDING 9 Security over the department's computer systems needs improvement. Applicable policies should be followed or developed.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Human Services during our annual audit of the state's financial statements and major federal programs. For the complete results of our audit 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 Human Services was limited. During the audit for the year ended June 30, 2004, our work at the Department of Human Services focused on 11 major federal programs: Food Stamp Cluster (Food Stamps and State Administrative Matching Grants for Food Stamp Program), Rehabilitation Services-Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families, Child Support Enforcement, Social Security Disability Insurance, Summer Food Service Program for Children, and the Child Care and Development Fund Cluster (Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund). 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 programs 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 31, 2005

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Virginia T. Lodge, Commissioner
Department of Human Services
Citizens Plaza Building
400 Deaderick Street
Nashville, Tennessee 37248

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Human Services 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/th
05/013



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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

December 3, 2004

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 Human Services 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 Human Services.

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 Human Services. 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.

**Major Federal Program Administered by the
Department of Human Services
For the Year Ended June 30, 2004
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
10.551	Food Stamps	\$796,414
10.559	Summer Food Service Program for Children	\$6,059
10.561	State Administrative Matching Grants for Food Stamp Program	\$30,100
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	\$55,614
93.558	Temporary Assistance for Needy Families	\$154,796
93.563	Child Support Enforcement	\$38,720
93.575	Child Care and Development Block Grant	\$114,177
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$63,987
96.001	Social Security Disability Insurance	\$37,972

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

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

The Honorable John G. Morgan
December 3, 2004
Page Three

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/or compliance issues related to the major federal programs at the Department of Human Services. 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 Human Services' 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, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

FINDINGS AND RECOMMENDATIONS

1. Controls over Vocational Rehabilitation equipment need to be strengthened

Finding

The Department of Human Services (DHS) has not always updated the Property of the State of Tennessee (POST) system to reflect accurate information about equipment assigned to the Tennessee Business Enterprises (TBE) section of the Vocational Rehabilitation program (VR). TBE oversees the operation of vending machines and snack bars in rest areas and public buildings across the state that are managed by blind vendors. Revenue from the machines and snack bars goes to the blind vendors, although the blind vendors are required to pay TBE a licensing fee. TBE is responsible for training the blind vendors, maintaining the vending machines, moving machines between locations, and purchasing new machines.

The department uses POST to maintain equipment information such as descriptions, serial numbers, state tag numbers, acquisition costs, locations, dates of acquisition, funding sources, etc. Testwork on a sample of 17 VR equipment items revealed the following problems:

- One item (6%), a vending machine costing \$5,087, could not be found reducing the actual items available for inspection and testing to 16. Management believes that this machine was traded-in for another vending machine; but they could not provide documentation to substantiate this.
- The serial number of a commercial dishwasher costing \$22,850, one of 16 items tested (6%), was incorrectly recorded in POST.
- Two of 16 items tested (13%), an ice-cream-making machine costing \$9,094 and a vending machine costing \$5,087, were not at the location shown in POST.
- Two of 16 items (13%) did not have a State of Tennessee property tag attached. These items included a vending machine costing \$5,044 and a counter cabinet stand costing \$14,864.

In addition, the inventory process had not been completed for fiscal year 2004 for 65 (10%) of 662 equipment items shown in POST as assigned to the VR program and costing at least \$5,000. The Department of General Services' state property officer sent a memo to DHS's property officer which outlined the department's responsibilities concerning equipment. The memo included the following statement:

The annual count of fixed assets and sensitive equipment owned by your department begins February 17, 2004 and is to be completed by June 25, 2004. Completion will be termed as a hundred percent accountability of the department's equipment by physically locating or completing the appropriate paperwork for any retirements of equipment not found.

The Department of General Services' *POST User Manual*, Appendix C – *Physical Inventory Procedures*, states, "Each state agency must take an annual physical inventory prior to the close of the fiscal year." The inventory process includes entering the inventory information into POST and notifying the Department of General Services about any equipment items that could not be located. Also, the property officer could not provide complete documentation to support his statement that all equipment items had been observed or otherwise accounted for by June 25, 2004.

When proper equipment records are not accurately maintained, the probability increases that equipment will be lost or stolen and not be detected.

Recommendation

The department's property officer should ensure that all Vocational Rehabilitation equipment items are recorded in POST and that the information in POST is accurate and up-to-date. The correct location information, descriptions, serial numbers, and other information should be promptly recorded in POST. When equipment is traded in or surplus, there should be appropriate documentation detailing these transactions. Also, a complete physical inventory should be taken annually.

Management's Comment

We concur. While the Department did conduct an inventory, all of the information was not timely entered into POST. We are preparing to implement a bar coding procedure for our equipment. This procedure should minimize this problem and allow for better inventory controls. Again, we believe that the bar coding procedure will help this issue.

2. The Division of Rehabilitation Services has not always properly maintained client case files

Finding

The Division of Rehabilitation Services could not locate one of 40 client case files (2.5%) requested for testing of client eligibility within the guidelines of the State Vocational Rehabilitation Services Program. The Director of Vocational Rehabilitation initially stated that the file existed, but subsequently acknowledged the fact that the client case file could not be located by signing the auditor's missing documents form. Client case files contain documentation such as eligibility determination information, client related expenditures, and an individualized plan of employment, as well as sufficient information to confirm that the client is not fictitious.

The *Code of Federal Regulations*, Title 34, Section 361.1, states that this program is "Designed to assess, plan, develop, and provide vocational rehabilitation services for individuals

with disabilities, consistent with their strengths . . . so that they may prepare for and engage in gainful employment.” Section 361.47 states that for each individual who has been determined to be eligible for services, documentation of eligibility and an individual record of service must be maintained.

If client files are not properly maintained, the department is in violation of federal regulations and cannot adequately support client eligibility. Also, there is an increased risk that information in lost files could be used for unauthorized purposes and violate the *Code of Federal Regulations*, Title 45, Part 164, Section 530(c)(2)(ii), which states, “A covered entity must reasonably safeguard protected health information to limit incidental uses or disclosures made pursuant to an otherwise permitted or required use or disclosure.”

Recommendation

The Commissioner should ensure the department adequately maintains and safeguards information used to determine eligibility for the State Vocational Rehabilitation Services Program. The Commissioner should also ensure that a diligent effort has been made to locate the missing file and ensure that the client is not a fictitious person and no other problems exist with this client.

Management’s Comment

We do not concur. The Regional Supervisor indicated that all the case files requested by the auditor for review were sent to the state office. The state auditor remembered receiving a checklist along with the files from the support staff. No one knows where and how the file got misplaced. Due to this incident, the Division of Rehabilitation Services will now ask the auditors to sign a document when borrowing cases/files for review. It has also been determined that the client is not fictitious and there are no other problems with the case.

Auditor’s Rebuttal

As noted in the finding, the Director of Vocational Rehabilitation acknowledged the fact that the client case file could not be located and signed the auditor’s missing documents form. There is nothing to indicate that the client file was lost or misplaced by our auditor. The Division of Rehabilitation Services is responsible for ensuring that all client files are properly maintained and accounted for.

3. The department did not always properly monitor organizations that provided services for the Division of Rehabilitation Services

Finding

Organizations that provide vocational rehabilitation services to individuals with disabilities through contract with the Division of Rehabilitation Services (DRS) are not always monitored. In the fiscal year ended June 30, 2004, there were 104 organizations or educational institutions that had separate contracts with this division. Total expenditures charged to these contracts amounted to \$12,012,324.00. These organizations are often paid based only on information shown on an invoice for reimbursement. This invoice is a summary of the organization's program-related expenditures and is normally submitted monthly. Since the information is only a summary, DRS cannot determine if the expenditures were in fact for the particular program or if the amounts of the expenditures were accurate.

Testwork performed on a sample of 89 expenditures for the fiscal year ended June 30, 2004, disclosed that 8 (9%) either had only an invoice as support for reimbursement or had some additional support but still had inadequate documentation. None of these organizations were monitored by the department during the fiscal year ended June 30, 2004.

Additional testwork was also performed on the 25 contracts with the most expenditures charged to them during the audit period. Sixteen (64%) did not have an adequate amount of supporting documentation. Nine were paid based only on the information on an invoice for reimbursement. The other seven had a limited amount of additional documentation in addition to the invoice for reimbursement; however, it was still not enough to verify the accuracy and allowability of the charges. None of these contracts were monitored during the fiscal year ended June 30, 2004. Total expenditures charged to these 16 organizations amounted to \$2,201,808.09.

The standard grant agreement used by DRS states, “. . . the Grantee shall submit invoices, in form and substance acceptable to the Grantor State Agency, with all of the necessary supporting documentation, prior to any reimbursement of allowable costs.” Also, the *Code of Federal Regulations*, Title 34, Part 80.40(a), states, “Grantees [such as the Department of Human Services] are responsible for managing the day-to-day operations of grant . . . supported activities. Grantees must monitor grant . . . supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

When the department approves expenditures which lack adequate supporting documentation and an adequate system of monitoring, the probability increases that the program will be charged for unallowable costs or activities and that errors or fraud could occur and not be detected.

Recommendation

The Commissioner should instruct the Assistant Commissioner of Rehabilitation Services to develop policies and procedures which will result in the fiscal monitoring of organizations that provide vocational rehabilitation services to individuals with disabilities through contract with the Division of Rehabilitation Services (DRS). The Program Director should be instructed to submit to the Inspector General at the beginning of each fiscal year a list of all contractors who are paid based on an invoice for reimbursement. The Inspector General should perform a formalized risk assessment of the contractors and ensure that, at a minimum, all high risk contractors are monitored each year. The rest of the contractors should be monitored not less than once every two years to three years. The monitoring should be performed by departmental staff who are not part of the Rehabilitation Services division.

Management's Comment

We do not concur. The contracts on the audit findings fall into three basic groups: 1) contracts with local educational agencies (LEAs) under our Transition School to Work Program, 2) contracts with Institutions of Higher Education under our Learning Disabled student services program, and 3) contracts with Community Centers for the Deaf and Hard of Hearing.

Each of these programs is monitored programmatically on an on-going basis by our State Office and field staff overseeing these programs. Based on our day-to-day programmatic involvement with our contractors and the review of invoices prior to Fiscal Services processing the payment, we believe there are adequate monitoring activities of these programs by our Division.

Auditor's Rebuttal

While the department is performing some program monitoring, the Inspector General should perform a formalized risk assessment of the contractors and ensure that, at a minimum, all high-risk contractors are monitored each year. The rest of the contractors should be monitored not less than once every two to three years. The monitoring should include fiscal as well as program monitoring.

- 4. The Department of Human Services did not reduce Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements, and the department is not adequately monitoring the program's effectiveness**

Finding

As noted in the three prior audit reports, the department did not comply with federal regulations by reducing the assistance to recipients of Temporary Assistance for Needy Families (TANF) who failed to cooperate with child support requirements. Temporary Assistance for

Needy Families is a federal program established for the purpose of providing time-limited assistance to needy families with children. The Department of Human Services administers the TANF program in Tennessee under the name Families First. One of the important features of this program is the requirement that the head of the household must cooperate with child support enforcement efforts. Those recipients who do not cooperate are subject to having their benefits reduced.

Management concurred with the finding in the audit for fiscal year ended June 30, 2002, and stated that the Tennessee Child Support Enforcement System (TCSES) was not sending an alert to the Automated Client Certification and Eligibility Network of Tennessee (ACCENT) when it was determined that a TANF recipient was not cooperating with child support enforcement efforts. As a result of this interface failure, staff were not receiving the alerts that would have notified them of the non-cooperation. In July 2002, the department made changes to the TCSES-ACCENT interface to ensure that alerts related to instances of non-cooperation with child support were being correctly generated to staff. Also, in a memorandum dated July 31, 2002, field staff were advised of the interface correction and reminded of their responsibilities when they are notified of a participant's failure to comply with child support requirements. However, problems persisted and a similar finding was included in the audit for the fiscal year ended June 30, 2003. Management concurred with the prior audit finding and stated that the Commissioner would send a memorandum to all Family Assistance staff reinforcing the importance of working on the ACCENT alerts timely. Management also stated that alerts would be directed to the supervisor as well as the caseworker to ensure appropriate action is taken. The Director of Families First Policy sent a memo to Family Assistance staff on June 28, 2004. Despite these assurances, problems still persist.

The *Code of Federal Regulations*, Title 45, Section 264.30(c)(1), requires recipients of TANF benefits who do not cooperate with child support authorities to be sanctioned by "deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance. . . ." The *Code of Federal Regulations*, Title 45, Section 264.31(a)(3), further explains that the state may be penalized up to 5% of the State Family Assistance Grant if it does not substantially comply with this child support cooperation requirement.

During the fiscal year ended June 30, 2004, TCSES issued 20,881 child support "non-cooperation" alerts to ACCENT. A sample of 82 cases was selected to determine if the TANF assistance was reduced by at least 25% if the recipient continued not to cooperate with the department's child support enforcement efforts. Of these 82 cases, benefits should have been reduced in 25. However, because staff did not follow established policies and procedures for those who were determined to be non-cooperative, none of the recipients in any of these cases had their benefits reduced. The amount of the overpayments for these 25 cases was \$2,841.25. The likely federal questioned cost associated with this condition could exceed \$10,000.

For the first nine months of the fiscal year ended June 30, 2004, the University of Tennessee provided an Active Case Review of the TANF cases. This review was intended to give the department a measure of the program's effectiveness and the degree to which the department was complying with federal regulations. The department had developed a list of

steps (review guide) for the reviewers to follow in their assessment. This also provided documentation that the reviewers had reviewed all of the key compliance issues. Several problems were noted with this guide. The guide does not ask the reviewer to determine if benefits were properly reduced when child support non-cooperation was confirmed. The guide does not ask the reviewer to determine if benefits were not reduced or denied to any custodial parent of a child under six when child care was not available. Also, the guide did not ask the reviewer to consider all of the circumstances that affect eligibility and might require reductions of benefits.

The staff of the University of Tennessee calculated the number of active cases to be reviewed each year that would provide the necessary assurance of the program's effectiveness and compliance with federal regulations. The population from which the sample was selected consisted of all cases eligible for benefits. However, if a case was selected for review and the client was not receiving cash benefits, the case was not tested, and a replacement was not selected. According to management, this amounted to approximately 10% of the cases selected. Also, in April 2004, the department stopped this case review because of budgetary constraints and did not restart it for the rest of the fiscal year. These two decisions significantly increased the risk that problems in the administration of the program would not be detected timely. In December 2004, the Active Case Review began again and is now being done by DHS employees that report to the department's Inspector General. The inadequacy of the review guide was mentioned in the prior audit report, and management stated, "The Active Case Review form [used by the Active Case Review team] will be modified as recommended." The form was not revised.

A sample of 45 active cases reviewed by the Active Case Review Team was selected to determine whether the team had properly reviewed the active cases for compliance with applicable federal requirements, including eligibility, child support enforcement, work requirements, etc. However, no documentation could be provided for five of the cases (11%) to show that the cases had been reviewed. This documentation would have consisted of a completed review guide and discussion in the guide of any problems noted.

Failure to properly apply the prescribed penalty for non-cooperation is a violation of program requirements and could result in a reduction of federal funding for the TANF program. Failure to properly monitor the program increases the risk that other problems with the program could go undetected.

Recommendation

The Commissioner should again stress to field staff the importance of their responsibility when they are notified of a participant's failure to comply with child support requirements. Where applicable, benefits should be appropriately reduced. Also, supervisors in the field offices should review all cases which have received an alert about child support non-cooperation to determine if benefits should have been appropriately reduced or if cooperation by the recipient has begun.

The Director of Families First Policy should be instructed to revise the ACR review form so that it includes questions that address the key compliance issues, especially the ones that have been a problem for the department. This form should document whether the case reviewer has determined if TANF benefits have been properly reduced, where applicable.

Management's Comment

We concur. During the audit period the Department did not reduce benefits for all Families First participants who failed to cooperate with child support. To correct this problem, the department has undertaken several new procedures including 1) increased monitoring efforts, 2) new management reports, 3) resolution of information systems problems and 4) information system enhancements. Further, the Department submitted a corrective action plan to the U.S. Department of Health and Human Services which was approved.

The Department is continuing to enhance efforts to monitor the program's effectiveness. Since the audit period, the Active Case Review (ACR) staff positions that monitor the overall Families First program have been converted from contract staff to state employees within the Department. This move will enhance communication and management oversight. In addition, the process was reassessed and restructured, which resulted in increased monitoring of child support cooperation by ACR staff and an immediate action notice is being sent to the caseworker if needed.

The department plans to continue efforts to resolve problems in this area, including implementing a centralized unit dedicated to child support cooperation for Families First participants.

5. The department has not always properly monitored its contractors in the Temporary Assistance for Needy Families program

Finding

The Temporary Assistance for Needy Families program (TANF) uses contractors to provide some of the program's services. In the fiscal year ended June 30, 2004, the program had 66 individual contracts which received expenditures totaling \$45,827,938. The program had another 3,308 contractors who were paid through a Delegated Purchase Authority (DPA). Total expenditures charged to the DPA totaled \$2,123,581. The TANF program has a contract review group in the department which is responsible for monitoring these contractors to verify that the costs submitted on the invoices for reimbursement are accurate and the contractors are providing the agreed-upon services. However, the contract review group has not been monitoring all of these contractors; and the monitoring reviews that were done have not always been adequate.

Testwork was performed on 45 TANF contracts that had expenditures charged to them during the fiscal year ended June 30, 2004, to determine if they were monitored and, if so, was the monitoring adequate. The 32 contracts with the most expenditures were included in the

testwork. The other 13 were selected judgmentally. Total fiscal year ended June 30, 2004 expenditures for the contracts in the sample amounted to \$43,566,507. The following problems were noted:

- Eighteen of the contracts (40%) were not monitored during the audit period. Total expenditures charged to these contracts amounted to \$15,967,473.74. Subsequent to the audit period, management stated that it had developed a risk assessment plan and had revised the monitoring guide in an effort to more effectively monitor contractors.
- One of the remaining 27 contracts was audited by a CPA firm. Of the 26 that were monitored by the contract review group, the working papers for 3 (12%) could not be located.
- Of the 23 contracts that were monitored and had some supporting working papers, 18 (78%) appeared to have an insufficient amount of testwork performed on the contract, and there was no explanation as to why this work was not done or was not necessary. The working papers were missing one or more of the following: monitoring guides or guides not referenced to the testwork, internal control questionnaires, testwork on an invoice for reimbursement, testwork on payroll, testwork on in-kind contributions, contracts and independent auditor reports, program participant testwork, travel testwork, equipment testwork, Title VI compliance testwork, and testwork on program outcomes.

This monitoring program is a key internal control for TANF. It should be a priority for upper management. Failure to properly monitor contractors increases the probability that the program could be charged for unallowable costs or activities and that fraud could occur and go undetected.

Recommendation

The Commissioner should instruct the Inspector General, in consultation with the Director of Program Assessment, to develop and implement a more effective monitoring process to ensure that contracts are monitored and that they are monitored properly. The Director of Program Assessment should work with the contract monitors to ensure that they understand the monitoring process and how this monitoring review should be documented. Before any monitoring report is issued, the Director should review the report and the working papers to ensure that all necessary testwork has been done and that the conclusions expressed in the report agree with the testwork in the working papers. In addition, working papers should be properly labeled and stored in a secure area.

Management's Comment

We concur. During fiscal year 2004, the composition and leadership of the contract review group, as well as the system for collection and filing of review materials were in transition due to the conversion of the contract staff to state employees. In addition, based on

budget reductions, the number of staff in the contract review group for this audit period had been reduced by one-half for FY2004. In order to prioritize contracts to be monitored, a risk assessment process was used based on guidance from the Department of Finance and Administration, Office of Program Accountability Review (formerly PAR). Program Assessment, at the direction of the Office of Inspector General, will work closely with the Families First Services staff to ensure contracts are monitored as necessary.

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

Finding

The department did not comply with child support enforcement regulations dealing with establishment of support obligations, initiating interstate cases, and the state's annual self-assessment.

The Department of Human Services is the designated Child Support Title IV-D office; however, enforcement activities are generally contracted out to the Tennessee District Attorneys General Conference or other contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations. In a review of child support cases, the following weaknesses were noted:

- a. Support obligation services were not provided within the required time frame for 7 of 25 child support cases tested (28%). In one of the seven child support cases tested (14%), an attempt was made to commence proceedings to establish a support order. However, no attempt was made to serve notice of legal action on the noncustodial parent until 94 days after locating the noncustodial parent. This attempt was unsuccessful because the noncustodial parent had moved and there was no forwarding address. This was subsequently documented in the Tennessee Child Support Enforcement System (TCSES). In the other six child support cases (86%), no attempts were made to serve notice of action on the noncustodial parent within 90 days of locating the noncustodial parent. As of October 2004, action on two cases was commenced after this was brought to DHS's attention by the State Auditors, two cases had already been closed, one case had been flagged in TCSES for closure, and in one case an appointment had been scheduled with the noncustodial parent. The *Code of Federal Regulations*, Title 45, Section 303.4(d), states, "Within 90 calendar days of locating the alleged father or noncustodial parent, regardless of whether paternity has been established, establish an order for support or complete service of process necessary to commence proceedings to establish a support order . . . (or document unsuccessful attempts to serve process . . .)."
- b. The *Code of Federal Regulations*, Title 45, Part 303.7(b)(2), states ". . . within 20 calendar days of determining that the noncustodial parent is in another State, and, if appropriate, receipt of any necessary information needed to process the case, refer any interstate IV-D case to the responding State's interstate central registry for action. . . ." One of the 25 initiating interstate cases tested (4%) was not referred to the

responding state's interstate central registry for action within the required time frame, upon determining that a noncustodial parent was in another state. The information needed to process this case was received on July 9, 2004; however, the case was not sent to the responding state's interstate central registry until September 23, 2004, which is 76 days after the child support enforcement office had all the necessary information needed to process the case.

If support obligation services are not provided within the required time frame and required information is not provided to other states within the required time frame, caretakers and dependent children may be deprived of needed financial support, the state and federal government may not be reimbursed for support provided to Temporary Assistance for Needy Families and foster care recipients, and the state's Child Support Enforcement program may lose its share of federal incentive funds.

Weaknesses were also noted in the most recent annual Self-Assessment Review. The Department of Human Services performs an annual Self-Assessment Review of child support cases and issues a *IV-D Self-Assessment Annual Report* to the federal Office of Child Support Enforcement. This is to comply with the requirements of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the *Code of Federal Regulations*, Title 45, Part 308. The most recent report dated March 31, 2004, covered the review period of October 1, 2002, through September 30, 2003.

The department's internal audit division oversees the Self-Assessment Review, which consists of testing a sample of cases. The testwork is done by internal audit staff as well as staff assigned to the Child Support division. One hundred cases which were active during the review period are tested for compliance in the following areas:

- case closure,
- establishment of paternity and child support orders,
- expedited process,
- enforcement of support obligations,
- disbursement of collections,
- securing and enforcing medical support orders,
- review and adjustment of orders, and
- interstate service regulations.

The department's testwork performed on compliance with establishment of paternity and child support orders, enforcement of support obligations, securing and enforcing medical support orders, and interstate service regulations was reviewed. The following weaknesses in the work performed were noted:

- a. Sixty-one of the 100 cases (61%) tested for compliance with regulations on establishment of paternity and child support orders had support orders dated prior to the start of the review period and therefore should not have been included in the assessment.
- b. For 11 of 40 applicable cases tested for compliance with regulations on enforcement of support obligations (28%), the evaluators (1) made an incorrect decision about whether the case should have been included in the self-assessment, (2) reached the wrong conclusion about the case's compliance, or (3) did not complete the evaluation form properly.
- c. For one of 40 applicable cases tested for compliance with regulations on securing and enforcing medical support orders (3%), the evaluators incorrectly included a case in the self-assessment that should not have been included because the custodial parent had health insurance.
- d. For 3 of 40 applicable cases tested for compliance with interstate service regulations (8%), the evaluators either included a case in the review that should not have been included or reached an incorrect conclusion about the case's compliance.

When the department's staff include child support cases that are not applicable in the Self-Assessment Review or reach erroneous conclusions on compliance for the child support cases, the compliance percentages that are reported to the Office of Child Support Enforcement in the *IV-D Self-Assessment Annual Report* become unreliable.

In addition, area coordinators monitor the work of the department, judicial districts, and other contractors by sampling Child Support cases to determine if federal regulations are being followed. The Case Reading Sheet developed by Child Support Field Operations and used by the coordinators does not include a section on securing and enforcing medical support obligations, initiating interstate cases, and responding to interstate cases. Inadequate Case Reading Sheets could result in the area coordinators not identifying compliance problems, similar to those noted at the beginning of this finding, in a timely manner.

Recommendation

The Assistant Commissioner of Child Support should ensure that child support obligation services are provided within 90 days of locating the noncustodial parent. Unsuccessful attempts to serve process should also be documented properly and timely in the Tennessee Child Support Enforcement System. Interstate cases should be referred to the responding state's interstate central registry for action within 20 calendar days of the receipt of any necessary information to process the case.

In addition, the Commissioner should require the Director of Internal Audit to ensure that those persons who will be evaluating program compliance have read and understand the requirements. The Director of Internal Audit should closely monitor the evaluation as it is being performed in order to verify that only applicable cases are tested for compliance with federal

regulations and the conclusions and compliance percentages that are reported to the Office of Child Support Enforcement Self-Assessment Report are reliable.

The Case Reading Sheet used by area coordinators to monitor the work of the department, judicial districts, and other contractors should be revised by the Program Director to include all relevant issues, including sections on securing and enforcing medical support obligations, initiating interstate cases, and responding to interstate cases. In addition, consideration should be given to increasing the number of cases reviewed by the area coordinators in an effort to identify compliance problems in a timely manner.

Management's Comment

We concur in part. The importance of completing service of process within the required time frame and meeting the required time frames in interstate activities will be reinforced at the quarterly Child Support Administrator's meeting. Service of process time frames will also be stressed during the local office Technical Assistance Reviews by State Office Child Support staff.

The following is the department's response to the weaknesses in the Child Support Self-Assessment review:

- a. We concur. These are complex cases that do not fit neatly into the questions by which the case was being evaluated and there is some leeway into how to interpret the questions. However, we have implemented the recommendation to include only cases in which the first order is established during the review period.
- b. We concur in part. We reviewed the 11 cases in question. Seven of the cases were correctly included in the sample for the review on enforcement of support orders. One case should have been excluded from the sample. The evaluator reached the proper conclusion on two of the cases. The result of the review of one case was shown on the summary sheet but the reviewer failed to mark the questionnaire. This is more of a procedural error and considered a minor issue.
- c. We do not concur. The case was determined to be a valid case for inclusion in the sample for compliance with regulations on securing and enforcing medical support order. An order of support, including medical support was established during the review period. The custodial parent had health insurance but the court still had to order the medical support.
- d. We concur in part. We agree with the portion concerning the two cases cited as cases that should not have been in the sample. The third case (an interstate case) was properly evaluated and the summary sheet was properly marked.

The case reading sheet used by Area Coordinators to monitor the work of the department, judicial districts, and other contractors has been revised to include a section on securing and

enforcing medical support obligations, initiating and responding to interstate cases. The revised case reading sheet is now being used.

Auditor's Rebuttal

Our responses to the department's complete or partial non-concurrence with the weaknesses noted in the Self-Assessment Review are as follows:

- b. The cases in question were being evaluated for proper enforcement. The evaluator had indicated on the evaluation form for 7 of the 11 cases that enforcement was not an issue during the assessment period when, in fact, it was an issue. The summary report had a proper conclusion. For two of the cases, the evaluator had indicated that the case was not in compliance. One of the cases should have been marked not applicable and another case substituted for it. In the other case, the evaluator had indicated that the case was not in compliance. The summary report indicated that the case was in compliance, which was the proper conclusion. One of the cases involved an incarcerated non-custodial parent. We felt that this case was not applicable, but the evaluator included it in the assessment. In another case, the evaluator left the questionnaire blank, but the conclusion of the evaluator was proper. In the last of the 11 cases in question, the child was in foster care. The evaluator left the questionnaire blank. This case should not have been included in the assessment.
- c. We believe that since the court had determined that the custodial parent had health insurance, another case should have been selected in which the custodial parent did not have adequate health insurance.
- d. All three cases noted were interstate cases. The case diary in TCSES for the case in question shows no activity during the assessment period. Therefore, the department was not in compliance.

7. The Department of Human Services did not follow its approved cost allocation plan

Finding

The Department of Human Services did not follow its approved cost allocation plan when it charged the administrative cost of the department's Office of General Counsel (OGC) field staff to three federal programs. Administrative costs are allocated on a quarterly basis in accordance with methods outlined in the department's approved *Cost Allocation Plan* dated January 1, 2002. When the department calculated the allocation of OGC administrative costs for the quarter ended June 30, 2004, it used the allocation method approved for the Information Systems division rather than the one approved for the OGC field staff. As a result of this error, three federal programs were overcharged. Temporary Assistance for Needy Families was overcharged \$17,936.12, State Administrative Matching Grants for Food Stamp Program was overcharged \$9,068.77, and Child Support Enforcement was overcharged \$13,635.75.

According to the *Code of Federal Regulations*, Title 45, Section 95.517(a), “A State must claim FFP [Federal Financial Participation] for costs associated with a program only in accordance with its approved cost allocation plan.” Section 95.519 further states, “If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan . . . the costs improperly claimed will be disallowed.” When the department does not properly follow the approved cost allocation plan, it is in violation of federal regulations and makes itself liable for unallowable costs.

Recommendation

The Assistant Commissioner of Finance should ensure that the approved cost allocation plan is applied properly by reviewing supporting documentation and calculations of all quarterly cost allocations, while comparing these calculations to the approved plan. This review should be documented.

Management’s Comment

We do not concur that the approved cost allocation plan was not followed. The proper allocation plan was used, but an error was made in the mathematical calculation of the cost. Further, we do not agree this single error rises to the level of a finding. The error has been corrected and procedures have been established to ensure the correct formulae are applied.

Auditor’s Rebuttal

As stated in the finding, the department calculated the allocation of OGC administrative costs for the quarter ended June 30, 2004, using the allocation method approved for the Information Systems division rather than the one approved for the OGC field staff. This was not simply a mathematical error. As a result of this error, three federal programs were overcharged, which resulted in questioned costs averaging more than \$10,000.

- 8. For the fiscal year ended June 30, 2004, the department failed to monitor organizations which received over \$16 million to provide services for the Child Care program, and the results of monitoring visits did not always agree with conclusions in the monitoring reports**

Finding

The Department of Human Services has not always monitored certain child care contractors. Also, results of monitoring visits as documented in the working papers did not always agree with the monitoring report and questioned costs noted in the monitoring reports have not been repaid.

A listing of the 25 contractors that received the most program funds during the fiscal year ended June 30, 2004, was compared to a listing of contractors that were monitored by the Program Assessment or the Internal Audit Division. Eleven (44%) had not been monitored. The total amount of program funds paid to these 11 contractors during the fiscal year was \$16,219,998.

Testwork on a sample of program expenditures included 16 contractors and 23 contracts. Program expenditures of 15 of the contractors (94%) which represent 22 of the contracts (95%) were supported only by either an invoice for reimbursement or an Enrollment Attendance Verification Form and these contractors had not been monitored during the fiscal year. Four of these 15 which were not monitored were among the 25 highest paid contractors.

During the fiscal year ended June 30, 2004, 35 child care contractors were monitored by the Internal Audit Division. In a review of 25 reports and related working papers, six (24%) did not have documentation to show that all audit steps had been performed. Eleven (44%) had findings in the report that appeared to result in questioned costs. However, the report did not contain questioned costs related to these findings, nor did the working papers indicate that the conditions noted did not warrant the calculation of questioned cost. Five (20%) appeared to have problems noted in the working papers that should have been mentioned in the report but were not. Thirteen reports contained questioned costs; however, as of December 1, 2004, none of the questioned costs had been repaid. The amounts ranged from \$19.20 to \$21,995.20. The length of time since the reports had been issued ranged from 5 to 13 months.

This monitoring program is a key internal control. It should be a priority for upper management. Failure to properly monitor contractors increases the probability that the program could be charged for unallowable costs or activities and that fraud could occur and go undetected.

Recommendation

The Commissioner should instruct the Inspector General, in consultation with the Director of Internal Audit and the Director of Program Assessment, to develop procedures which ensure that contractors providing services to the Child Care program are monitored and that they are monitored properly. These procedures should include a formalized risk assessment of the contractors to ensure that, at a minimum, all high-risk contractors are monitored each year. The rest of the contractors should be monitored not less than once every two years to three years. The Inspector General should be instructed to ensure that all required testwork is performed, conclusions expressed in monitoring reports agree with the testwork in the working papers, and questioned costs are calculated and included in the monitoring report where applicable. Also, all questioned costs reported in monitoring reports should be pursued on by the department to ensure that they are repaid by the contractor in a timely manner.

Management's Comment

We do not concur. It would be impossible to monitor all the providers participating in the Child Care Certificate Program each year. Furthermore, it has never been the intent to audit the largest 25 providers. It is not known until the end of the fiscal year which providers received the most money. There are about 300 providers participating in the program and our goal is to review at least 25 providers every year based on current resources. During the first quarter of each fiscal year, a sample of providers is randomly selected for review. Internal audit reviews payments to providers for the three months prior to the scheduled review of the provider. Test work may be expanded up to a twelve-month period as deemed necessary. Additionally, any contractor receiving \$500,000 or more in public monies is subject to yearly audits by an independent Certified Public Accountant as required by state law.

The audit step that had been signed as completed was a four-part step. Three parts of the step were completed and documented as required in the working papers. The part in question is for the auditor to obtain copies of a child's certificate from the provider as a reference when necessary. This step does not require the auditor to exhibit the certificates in the working papers. The certificate is available online in TCCMS.

Three of the 11 reports should have included questioned costs. The providers were paid for absences beyond the 10-day limit. The total amount overpaid to the 3 providers was \$640.00. For the other eight providers, the department did not pay for absences beyond the 10-day limit; therefore, there were no questioned costs to calculate or note in the work papers.

The five noted are a program policy violation, but do not result in questioned costs. According to the program policy, discount rates offered to the center's employees, members of certain groups/organizations as well as children receiving scholarships are not considered lower rate than the state rate. These type discount rates and scholarships are the exceptions to the policy regarding public rate.

We concur that some questioned costs have not been timely collected. Procedures have been developed to ensure questioned costs are collected in a timely manner.

Auditor's Rebuttal

Nowhere in the finding have we stated that the department should "monitor all the providers participating in the Child Care Certificate Program each year," nor have we stated that the department should "audit the largest 25 providers." We have stated that there should be a "formalized risk assessment of the contractors to ensure that, at a minimum, all high-risk contractors are monitored each year. The rest of the contractors should be monitored not less than once every two to three years." In performing the risk assessment, one of the risk factors considered should be the amount of funds paid to the center during the previous fiscal year. The more funds received by the center, the greater the potential for fraud. For the four-part audit step mentioned in the finding, the working papers did not indicate that all parts had been completed.

If non-compliance with a particular rule could result in questioned costs, there should be an explanation in the working papers explaining why there were none.

9. Security over computer systems needs improvement

Finding

The Department of Human Services (DHS) has not always exercised proper control over some of its computer systems. When the department does not follow applicable written policies and procedures or has not developed its own policies and procedures, the department does not have sufficient guidance to effectively direct, control, operate, and maintain its systems. Failure to provide such controls increases the risk that unauthorized individuals could access sensitive state systems and information.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the state's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504 (i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

This finding is a reportable condition for purposes of the State of Tennessee Single Audit of federal financial assistance. This wording will also appear in that report, which will be provided to the federal government pursuant to the procedures developed for reporting of Single Audit findings.

Recommendation

DHS management should improve security over its computer systems.

Management's Comment

We concur in part. The Department has developed an automated system, Security Administration Facility for Everyone (SAFE), to assist and enhance the security of its systems. Pursuant to Section 10-7-504, *Tennessee Code Annotated*, we are providing our detailed response under separate cover.

STATUS OF PRIOR AUDIT FINDINGS

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

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

Repeated Audit Findings

The current audit disclosed that the Department of Human Services has not corrected the previous audit finding concerning the failure to reduce Temporary Assistance for Needy Families benefits because of Child Support non-cooperation. This finding will be repeated in the *Single Audit Report* for the year ended June 30, 2004.

Resolved Audit Findings

The current audit disclosed that the Department of Human Services had taken action to correct the previous findings concerning the lack of Business Associate Agreements, undistributed Child Support collections not reconciling to the state's accounting records and the federal reports, alleged fraud not being reported to the Comptroller of the Treasury, the Schedule of Expenditures of Federal Awards and related federal reports not reconciling to the state's grants' accounting records, and Child Support Enforcement contract terms not being followed. The finding about noncompliance with the Department of Finance and Administration's Policy 22 was not repeated because the policy is being rewritten.