

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

Department of Human Services

**For the Year Ended
June 30, 2005**

**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

Aaron Jewell, CPA, CFE
In-Charge Auditor

Demaris S. Anders
Bridget Carver, CFE
Harry Q. Lee, CFE
Tabitha Peden, CFE
Erica Pettway
Sheilah Pride, CFE
Cynthia Warner
Chelon Wilson
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

Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.state.tn.us.

**Department of Human Services
For the Year Ended June 30, 2005**

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary	1
Transmittal Letter	3
Results of Procedures	4
Findings and Recommendations	7
Status of Prior Audit Findings	22
Observations and Comments	22

**Department of Human Services
For the Year Ended June 30, 2005**

EXECUTIVE SUMMARY

Findings

- FINDING 1 The Property of the State of Tennessee (POST) system has not always been updated to reflect accurate information about Tennessee Business Enterprises equipment. Also, there was no evidence in POST that the inventory process had been completed for fiscal year 2005.
- FINDING 2 The Division of Rehabilitation Services has not always documented its compliance with the 60-day client eligibility determination requirement, and as a result, has not complied with federal regulations. Of 25 client case files tested, 3 (12%) did not contain evidence that the counselor and the client had agreed to a specific extension of time when eligibility for services could not be determined within 60 days of application for vocational rehabilitation services.
- FINDING 3 The department did not comply with child support enforcement regulations. For example, support obligation services were not provided within the required time frame. In addition, weaknesses were also noted in the most recent annual Self-Assessment Review.
- FINDING 4 The Department of Human Services did not deny or have good cause documentation for not denying Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements. Because staff did not follow established policies and procedures for those who were determined to be non-cooperative, 12 of 25 cases did not have their benefits denied, nor was there any documented evidence of a good cause reason for not denying the assistance. This was a finding in the prior four audits.
- FINDING 5 Mistakes in the administrative cost allocation spreadsheets resulted in the department claiming too much Food Stamp Administrative Matching Grant funding. As a result of these mistakes, the State Administrative Matching Grants for Food Stamp Program was overcharged \$13,272.14.
- FINDING 6 Controls over access to the Tennessee Rehabilitation Agency Tracking System need improvement. The security administrator could not locate a user authorization form for one person (4%) and none of the remaining 24 authorizations forms on file indicated an approved level of access.

FINDING 7 The department did not follow purchasing procedures when it obtained security services for local offices. The department inappropriately purchased security services totaling approximately \$50,000 during the year ended June 30, 2005, using local purchasing authority.

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, 2005, and the State of Tennessee *Single Audit Report* for the year Ended June 30, 2005. The scope of our audit procedures at the Department of Human Services was limited. During the audit for the year ended June 30, 2005, our work at the Department of Human Services focused on nine 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, Child and Adult Care Food Program, 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

April 20, 2006

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, 2005, 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
06009



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 20, 2005

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of 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, 2005. 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, 2005
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
10.551	Food Stamps	\$913,257
10.558	Child and Adult Care Food Program	\$41,578
10.559	Summer Food Service Program for Children	\$6,410
10.561	State Administrative Matching Grants for Food Stamp Program	\$36,506
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	\$55,972
93.558	Temporary Assistance for Needy Families	\$144,833
93.563	Child Support Enforcement	\$37,557
93.575	Child Care and Development Block Grant	\$101,512
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$61,209

Source: State of Tennessee's Schedule of Expenditures of Federal Awards for the year ended June 30, 2005.

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 20, 2005, on the State of Tennessee's financial statements for the year ended June 30, 2005. 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 20, 2005
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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

FINDINGS AND RECOMMENDATIONS

1. The Property of the State of Tennessee system has not always been updated to reflect accurate information about Tennessee Business Enterprises equipment, and as a result, management has not mitigated the risk that lost or stolen equipment might not be detected in a timely manner

Finding

As noted in the prior audit, 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 20 VR equipment items revealed the following problems:

- One item (5%), a cold food vending machine costing \$5,360.00, had been traded in for credit on new equipment but was still listed in POST with Status Code “E,” indicating that the equipment is in use.
- Three items (15%) — a vending machine costing \$5,360.00; a vending machine costing \$5,795.00; and a vending machine costing \$5,718.00 — were not at the locations shown in POST.
- One item (5%), a vending machine costing \$6,345.00, had an incorrect cost recorded in POST. The recorded cost in POST was \$6,151.79. The equipment cost was correctly recorded at \$6,345.00 in the State of Tennessee Accounting and Reporting System.
- One item (5%), a vending machine costing \$5,932.80, had an incorrect owner code in POST. The recorded owner code was “F” (federally owned). The correct owner code is “A” (federal and state owned).
- Three items (15%) — a vending machine costing \$5,778.00; a commercial cooking range costing \$23,267.00; and a vending machine costing \$5,087.00 — did not have a State of Tennessee property tag attached. According to the Property Manager at the

Department of General Services, replacement tags can be obtained by request from the POST Supervisor. However, the department did not obtain replacement tags.

In addition, there was no evidence in POST that the physical inventory process had been completed for fiscal year 2005 for 13 (2%) of 595 items shown in POST as assigned to the VR program and costing at least \$5,000. The State Auditors asked management for any evidence that a physical inventory was performed or for any additional information regarding these items. According to a TBE Supervisor, three of these items were traded in prior to the physical inventory being taken, but POST was not updated to reflect this trade-in. For six items, POST records were updated to reflect a physical inventory date after June 30, 2005. A Director of Administrative Services at one of the Tennessee Rehabilitation Centers stated that staff forgot to count three items. He also stated that one other item was surplus in 2003, but POST was not updated to reflect the change. Also, four of the 13 items noted above were also addressed in the prior audit finding.

The Department of General Services' state property officer sent a memo to DHS's property officer, dated February 1, 2005, 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 1, 2005, and is to be completed by June 24, 2005. 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 physical 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.

Management concurred with the prior audit finding and agreed that all information had not been entered into POST in a timely manner after the physical inventory was conducted. Management also stated that they were preparing to implement a bar coding procedure for its equipment in an effort to minimize problems and allow for better inventory controls. However, the department did not fully implement the bar coding procedure. During fieldwork, a TBE Supervisor stated that the division began applying bar code labels to equipment in April 2005 and has a scanner prototype for testing. The TBE Supervisor also stated that they planned to implement the bar coding system during the spring of 2006.

When proper equipment records are not accurately maintained, the risk increases that equipment will be lost or stolen and not be detected in a timely manner.

Recommendation

The Rehabilitation Services Assistant Commissioner should instruct all Vocational Rehabilitation personnel in charge of property to ensure that all Vocational Rehabilitation equipment items' location information, descriptions, serial numbers, and other information are promptly and correctly recorded or updated in POST. Also, a complete physical inventory should be taken annually. For items where the state tag is no longer present, the property officer should request replacement tags from the Department of General Services. Management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur. Staff trainings have emphasized the necessity to properly catalog and account for equipment and progress is being made. TBE staff are implementing the bar coding system and have been trained. We are replacing older tags with new ones that are not as easily removed as a part of the bar coding implementation. Finally, management is evaluating its current policy of trading in equipment as this seems to be the problem area of maintaining property inventory listings.

- 2. The Division of Rehabilitation Services has not always documented its compliance with the 60-day client eligibility determination requirement and as a result, has not complied with federal regulations**

Finding

The Division of Rehabilitation Services has not always documented its compliance with federal regulations governing client eligibility for Vocational Rehabilitation Services. Federal regulations require the division to obtain and document approval of an extension of time when eligibility for services cannot be determined within 60 days.

Of 25 client case files tested, 3 (12%) did not contain evidence that the counselor and the client had agreed to a specific extension of time when eligibility for services could not be determined within 60 days of application for vocational rehabilitation services. Examples of these services would include physical and mental restoration, as well as, job readiness training.

The *Code of Federal Regulations*, Title 34, Part 361, Section 41(b)(1), states:

Once an individual has submitted an application for vocational rehabilitation services. . . an eligibility determination must be made within 60 days, unless-- (i) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or (ii) An exploration of the individual's abilities, capabilities, and capacity to perform in work situations is carried out . . .

The *Vocational Rehabilitation Program Manual* states:

If an eligibility decision cannot be made within 60 days, the counselor must notify the client of exceptional and unforeseen circumstances and request agreement to extend the time for making the eligibility decision.

This manual also cites specific forms that can be used to document the agreement between the counselor and the client.

Two of the three client case files tested contained a written request (Form EL-1) from the counselor to the applicant in which the counselor informed the applicant that eligibility could not be determined within 60 days and requested a specific extension of time for determination of eligibility. Form EL-1 included a statement for the client to sign and date indicating that he/she agreed to the specific extension of time. However, neither of these two client case files contained evidence that the applicant agreed to an extension. The third client case file contained a handwritten note stating that the applicant understood that eligibility could not be determined within 60 days, but the note did not specify a date on which the applicant and the counselor agreed. In addition, the *Code of Federal Regulations* allows an extension of the 60-day requirement if the state is exploring an individual's abilities, capabilities, and capacity to perform in work situations. A discussion with the Director of Policy, Planning and Development revealed that none of these enrollees fell into that category. The three clients noted above were certified as eligible for vocational rehabilitation services 99 to 172 days after application.

The Rehabilitation Services Administration (RSA) in the U.S. Department of Education conducted an on-site review of the program during June 14-18, and July 26-28, 2004. In its report dated July 24, 2005, RSA reported that the Department had a 15% error rate for the 60-day requirement. In its September 1, 2005 response to the RSA report, the Department of Human Services proposed corrective action to address this issue. The department's proposed corrective actions included among other things, in-service training for counselors, obtaining input from field staff on strategies to increase compliance, increased supervisory review for the 60-day requirement, and on-going assessments by quality assurance staff to assess compliance. In a letter from RSA to the Assistant Commissioner of Rehabilitation Services in the Department of Human Services, dated September 7, 2005, RSA noted that the proposed actions were sufficient to address the problem. RSA also stated that they would conduct an assessment of the implementation of the corrective action plan during federal fiscal year 2006.

When the Division of Rehabilitation Services counselor is unable to meet the 60-day federal eligibility determination requirement and does not document the counselor/client

agreement of an extension, the division has failed to comply with federal regulations. Also, this could result in an excessive delay of rehabilitation services to individuals who need assistance.

Recommendation

The Director of the Division of Vocational Rehabilitation should ensure that Vocational Rehabilitation personnel complete the vocational rehabilitation eligibility determination within the 60-day timeline. When the determination cannot be made within this time period due to circumstances as outlined in the *Code of Federal Regulations*, the Director should ensure that the case file contains documentation to support the counselor and client's agreement on an extension of time. Also, management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur. As noted in the finding, this finding is identical to the one cited by the Rehabilitation Services Administration (RSA) in its report dated July 24, 2005. After receiving approval of the corrective action plan by RSA on September 7, 2005, we began implementation of the plan, which includes increased training, monitoring, and reporting.

3. The department did not comply with child support enforcement regulations and as a result, did not mitigate all risks associated with such noncompliance

Finding

As noted in the previous audit, the department did not comply with child support enforcement regulations dealing with establishment of support obligations and the state's annual self-assessment. In addition, the current audit revealed the department did not comply with child support enforcement regulations dealing with securing and enforcing medical support obligations.

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.

Management concurred in part with the prior audit finding and stated,

The importance of completing service of process within the required time frame . . . 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.

During fieldwork, we noted that the department did reinforce completing service of process within the required time frame at the quarterly Child Support Administrator's meeting and through the Technical Assistance Reviews. However, problems still exist. In a review of child support cases, the following weaknesses were noted:

- a. Support obligation services were not provided within the required time frame, nor was a support order established for 3 of 25 child support cases tested (12%). In all three cases, an attempt was made to commence proceedings to establish a support order. However in one case, no attempt was made to serve notice of legal action on the noncustodial parent until 176 days after the noncustodial parent was located. In another case, no attempt was made to serve notice of legal action on the noncustodial parent until 116 days after the noncustodial parent was located. In the third case, no attempt was made to serve legal notice during the 203-day period the department had an address for the noncustodial parent. After this period of time, the noncustodial parent moved and did not leave a forwarding address. The *Code of Federal Regulations*, Title 45, Part 303, Section 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 . . .)." As noted above, testwork revealed three problems in the current audit. In the prior audit finding, testwork revealed seven problems in this area.
- b. For 13 of 14 child support cases tested (93%), where the noncustodial parent had obtained health insurance for the dependent children with an effective date of the insurance beginning during July 1, 2004, through June 30, 2005, there was no documentation that DHS informed the Department of Finance and Administration, Bureau of TennCare of the health insurance. The *Code of Federal Regulations*, Title 45, Part 303, Section 30(a), states, ". . . the IV-D agency shall obtain the following information on the case: . . . (7) Whether the noncustodial parent has a health insurance policy and, if so, the policy name(s) and number(s) and name(s) of person(s) covered." The *Code of Federal Regulations*, Title 45, Part 303, Section 30(b) states, "The IV-D agency shall provide the information obtained under paragraph (a) of this section to the Medicaid agency in a timely manner by the most efficient and cost-effective means available, using manual or automated systems." Also, based on discussions with the Director of Child Support Policy and the Director of Child Support Field Operations, the department does not have a process in place to notify the Bureau of TennCare about information regarding health insurance.

If support obligation services are not provided within the required time frame, there is an increased risk that caretakers and dependent children may be deprived of needed financial support, and the state and federal government may not be reimbursed for support provided to

Temporary Assistance for Needy Families and foster care recipients. If the Bureau of TennCare is not informed of the dependent children's health insurance policies, there is an increased risk that the Bureau of TennCare might pay for health care costs that would be covered under health insurance provided by the noncustodial parent.

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, 2005, covered the review period of October 1, 2003, through September 30, 2004.

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. Child Support 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 services.

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 services was reviewed.

For 4 of the 40 cases (10%) tested for compliance with regulations on establishment of paternity and child support orders, the conclusion on compliance in the *IV-D Self-Assessment Annual Report* was incorrect. For three of the four cases, the evaluators reached an incorrect conclusion about the case's compliance, and the incorrect conclusion was in the report. For one of the four cases, the evaluators reached a correct conclusion about the case's compliance, but an incorrect conclusion was in the report.

When the department's staff reaches incorrect conclusions on compliance for the child support cases in the Self-Assessment Review or records incorrect conclusions in the report, there is an increased risk that the compliance percentages that are reported to the Office of Child Support Enforcement in the *IV-D Self-Assessment Annual Report* are unreliable.

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. The Department of Finance and Administration, Bureau of TennCare should be informed of health insurance policies timely.

In addition, the Commissioner should require the Inspector General to ensure that those persons who will be evaluating program compliance have read and understand the requirements. The Inspector General should closely monitor the evaluation as it is being performed to verify that the conclusions and compliance percentages that are reported to the Office of Child Support Enforcement in the *IV-D Self-Assessment Annual Report* are reliable.

Management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

- a. We concur. As evidenced by our improvement over last year's audit, we will continue to stress and reinforce the importance of completing service of process and providing the needed service within the required time frame at the quarterly Child Support Administrator's meeting. Also, service of process time frames and providing the required service will continue to be stressed during the local office Technical Assistance Reviews by State Office Child Support staff. In addition to these ongoing measures, a memorandum will be issued to field staff emphasizing the importance of timely service of process and providing needed services.
- b. We concur. The Department currently provides health insurance information to the Bureau of TennCare upon request. In addition, health insurance information is provided to the Bureau of TennCare on individual cases on a limited basis through the IV-A (Family Assistance) ACCENT system interface. However, to fully comply with the Child Support Program's responsibility to provide health insurance policy information to the Bureau of TennCare timely and for all non-custodial parents, the Department has developed with TennCare a process to routinely provide the necessary health insurance policy information. The process is scheduled to be implemented April 2006.

4. The Department of Human Services did not deny or have good cause documentation for not denying Temporary Assistance for Needy Families for participants who failed to cooperate with child support requirements and has not mitigated the risk that the department could lose grant funding resulting from grant noncompliance

Finding

As noted in the four 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 denied.

Management concurred with the finding in the audit for fiscal year ended June 30, 2002, and acknowledged 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 also concurred with that 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 audit for the year ended June 30, 2004, included a repeat finding and we reported that the memo addressed above was sent by the Director of Families First Policy to Family Assistance staff on June 28, 2004. Management again concurred with the prior-year audit finding and stated that the department had undertaken several new procedures, including increased monitoring efforts, new management reports, resolution of information systems problems, and information system enhancements.

During the most recent fieldwork, the Families First Policy and Child Care Certificate Director stated that new reports have been generated which identify outstanding alerts and that these reports have been given to supervisors for review. In addition, management in their six-month follow-up to the Division of State Audit for the prior audit finding identified two TCSES-ACCENT system interface issues that management indicated had been corrected in February and

March 2005, respectively. These efforts resulted in some improvement because the error rate was not as high as in the previous audit, but more improvement is needed.

According to the *Families First Policy Handbook*, “Failure to cooperate with any of the child support requirements, without good cause, will result in a sanction of ineligibility for the entire AG [assistance group].” 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 “(1) 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; or (2) Denying the family any assistance under the program.” The State of Tennessee has chosen to deny the family any assistance under the program. In addition, the *Code of Federal Regulations*, Title 45, Section 264.31(a)(3), explains that the state may be penalized up to 5% of the State Family Assistance Grant if it does not comply with this child support cooperation requirement. Based on the current year’s testwork results, the department has not mitigated this risk.

During the fiscal year ended June 30, 2005, TCSSES issued 23,136 child support “non-cooperation” alerts to ACCENT. A sample of 43 cases was selected to determine if the TANF assistance was denied or good cause documentation existed for not denying if the recipient continued not to cooperate with the department’s child support enforcement efforts. Of these 43 cases, benefits should have been denied or a good cause reason documented for the non-cooperation in 25. However, because staff did not follow established policies and procedures for those who were determined to be non-cooperative, 12 of the cases did not have their benefits denied nor was there any documented evidence of a good cause reason for not denying the assistance. The amount paid for these 12 cases was \$1,369.57. The likely federal questioned cost associated with this condition could exceed \$10,000. In addition, for 10 of these 25 cases (40%) there was no mention by the caseworker in the running records screen in ACCENT of the child support “non-cooperation” alert. The *Families First Policy Handbook* requires that “. . . cases documentation about exemptions, good cause determinations and procedures, sanction decisions and any other pertinent information about the child support requirements must be documented on the ACCENT CLRC, running record comments screen.”

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. Also, when child support “non-cooperation” alerts are not included in ACCENT, departmental policy is violated and actions regarding the case could be delayed.

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 denied. When benefits should not be denied, good cause reasons should be documented. 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 denied, cooperation by the recipient has begun, or good cause reasons are documented.

Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur. While the Department has made significant improvements in this area, we recognize the need for additional improvements. The Department will provide refresher policy regarding processing child support cooperation alerts to Family Assistance staff responsible for managing cases with child support cooperation requirements. In addition, following procedure development and staff training, the Department will specialize, within the Family Assistance call center, the function of monitoring and processing child support alerts which will include taking all appropriate case actions.

5. Mistakes in the administrative cost allocation spreadsheets resulted in the department claiming too much Food Stamp Administrative Matching Grant funding; as a result, the department did not mitigate the risk of over or undercharging federal programs

Finding

The Department of Human Services administrative costs which cannot be tied to a specific federal program are allocated to the federal programs on a quarterly basis. This allocation is in accordance with methods outlined in the department's approved *Cost Allocation Plan* dated January 1, 2002.

For the quarter ended June 30, 2005, mistakes were noted in the spreadsheets used to allocate administrative costs. In most instances data from supporting documentation was not recorded correctly in the spreadsheets used to calculate the administrative cost percentages. As a result of these mistakes, the State Administrative Matching Grants for Food Stamp Program was overcharged \$13,272.14 which is 0.16% of the department's administrative cost of \$8.5 million for the quarter ended June 30, 2005. The federal Office of Management and Budget Circular A-133 require this issue to be reported as a finding because questioned costs exceed \$10,000.

When fiscal staff fail to thoroughly review the administrative cost percentages and the data used in allocating federal funds, the department risks over or undercharging the federal programs.

Recommendation

The Assistant Commissioner of Finance and Administration should ensure that staff adequately reviews all quarterly cost allocation spreadsheets and supporting documentation to ensure that data is recorded correctly. Management should ensure that risks such as the one noted in this finding are adequately identified and assessed in management's documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur. While we agree that numbers were transposed which resulted in an incorrect calculation, we do not believe these errors necessitate an audit finding. In order to further mitigate the possibility of errors, we have implemented sampling and comparison procedures to the cost allocation tables and worksheets.

- 6. Controls over access to the Tennessee Rehabilitation Agency Tracking System need improvement to mitigate the risk that that the level of access granted an employee differs from the level of access approved and the possibility that unauthorized individuals could access information not needed for their job**

Finding

The Department of Human Services staff has not always exercised proper control over access to the Tennessee Rehabilitation Agency Tracking System (TRACTS). The Division of Vocational Rehabilitation Services uses TRACTS to assist in administering the State Vocational Rehabilitation Services Program.

The Department of Human Services developed an automated system, Security Administration Facility for Everyone (SAFE), to enhance security over its information systems including TRACTS. SAFE requires the user to agree on-line to a departmental code of ethics. In addition, the user's requested level of access must be approved on-line by the user's supervisor and the system administrator prior to any access being granted to the department's information systems. One of the benefits of SAFE is that it will, when fully implemented, remove the need for the user authorization forms. SAFE is linked to TRACTS and updates user information based on approved requests. In a letter dated October 6, 2005, to the Director of the Division of State Audit, the Commissioner of the Department of Human Services stated that all new users of the department's computer systems were now being managed through SAFE, however, there were still some areas, which included the Division of Vocational Rehabilitation, where conversion of existing staff has yet to be accomplished. As of September 27, 2005, only

39 of 657 users (6%) with either inquiry or edit access to TRACTS had been added to the SAFE system. The Director of the Division of Vocational Rehabilitation stated that the division's inability to retain a computer programmer has resulted in delays in adding current TRACTS users to SAFE.

Testwork was performed on a sample of 25 persons who, on August 29, 2005, had update access to TRACTS to determine whether (1) a properly approved TRACTS user authorization form was on file showing the user's approved level of access or (2) the user's access was documented and approved in SAFE. The security administrator could not locate a user authorization form for one person (4%) and although the security administrator had user authorization forms on file for the remaining 24 individuals tested in the sample, none of the forms indicated an approved level of access. Testwork did not reveal any instances where the users' actual level of access was not necessary for the individual's job responsibilities. In addition, as of September 27, 2005, none of the 25 persons sampled had actually been added to the SAFE system.

The failure to ensure that adequate and properly approved forms are developed and maintained or access levels are documented in SAFE makes it more difficult to mitigate the risk that the level of access granted an employee differs from the level of access approved and the possibility that unauthorized individuals could access information not needed for their job responsibilities.

Recommendation

The Director of Vocational Rehabilitation Services should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk assessment activities. In particular, the Director of Vocational Rehabilitation Services should ensure that as soon as practicable all TRACTS users are managed through SAFE. Until this takes place, the Director of Vocational Rehabilitation Services should take steps to assure that properly approved user authorization forms are maintained for each user and that these forms include the level of access required. The Director of Vocational Rehabilitation Services should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. The Director of Vocational Rehabilitation Services should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur. As noted in the finding, the Department has developed an automated system, Security Administration Facility for Everyone (SAFE) to enhance security over its information systems. The conversion of all of the Division of Rehabilitation Services' staff to the SAFE system is ongoing and the goal is to be complete by the end of this fiscal year. Until this conversion is complete, we will strive to ensure that all documentation is complete.

7. The department did not follow purchasing procedures when it obtained security services for local offices and did not mitigate the risk that the state might be failing to receive the best contract terms possible

Finding

The department did not follow purchasing procedures when it obtained security services totaling approximately \$50,000 during the year ended June 30, 2005 using local purchasing authority. The *Department of General Services Agency Purchasing Procedures Manual*, Section 11.6, in effect during the audit period, states:

This Local Purchase Authority should not be used for purchases of a recurring nature where purchases by the Purchasing Division in larger volume will result in savings. When the purchase of items of less than \$2,000 is foreseen to be repetitive to the extent that total purchases of a specific type of commodity or service will exceed \$2,000 for a single calendar month the using agency should procure the items through the Purchasing Division. . . .

The purpose of these purchasing procedures is to ensure that the state receives the best contract terms possible at the lowest price. This limit was raised from \$2,000 to \$5,000 effective July 1, 2005. The Department also made additional security services purchases during the months of July through September 2005 of approximately \$357,000.

These services were acquired to provide additional security at the local offices where TennCare disenrollment was occurring. TennCare is the state's Medicaid program. The first purchases were made in June 2005. According to discussion with the Director of Office Services, because the department did not fully know how many security services would actually be necessary the department felt it was impractical to procure the items through the Purchasing Division.

In the future when a similar situation occurs, the department should work with the Purchasing Division in the Department of General Services to obtain guidance and approval concerning the best way to make the purchase. One possibility outlined in Section 11.8 of the *Department of General Services Agency Purchasing Procedures Manual* would be to request approval to make an emergency purchase. According to the Tennessee On-line Purchasing System Administrator at the Department of General Services, another possibility would be to obtain a Delegated Purchase Authority agreement to use until contracts could be negotiated. This could allow the department to have additional purchasing authority necessary to make purchases over the limits until a contract could be obtained.

Recommendation

To set a good example of the necessity for compliance, top management should ensure that all staff follow established policies and procedures for purchasing. The Commissioner should ensure that department staff does not make local purchases that exceed the limits

specified in the *Department of General Services Agency Purchasing Procedures Manual*. When situations arise where compliance with purchasing rules is impractical, staff should seek an exception to the rules from the Division of Purchasing in the Department of General Services. Management should ensure that the risk noted in this finding is adequately identified and assessed in management's documented risk assessment activities. Management should also identify staff to be responsible for ongoing monitoring for compliance with this purchasing limit and taking prompt action when circumstances arise requiring the limit to be exceeded.

Management's Comment

We do not concur. The Department consulted with and was assisted by General Services in its procurement of emergency security services. Further, General Services has approved the prior procedures for ongoing procurement of emergency security services.

Rebuttal

According to follow-up correspondence with the Deputy Commissioner in the Department of General Services, on a number of occasions, the Assistant Commissioner of the Department of Human Services was offered assistance in how to handle the purchase of services for the TennCare disenrollment. This assistance included options within normal purchasing guidelines and the use of an emergency purchase. However, there was no documentation or evidence that the Department of Human Services requested or received an Emergency Purchase Authorization prior to making the purchases in question. Section 11.8 of the *Department of General Services Agency Purchasing Procedures Manual* states, "The [emergency] purchase must have prior authorization from the Purchasing Division on TOPS on the PAPV screen. All emergency purchases shall, if practicable, be made on the basis of competitive bids."

STATUS OF PRIOR AUDIT FINDINGS

State of Tennessee *Single Audit Report* for the year ended June 30, 2004

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 findings concerning controls over Vocational Rehabilitation equipment, child support enforcement compliance, and the failure to reduce Temporary Assistance for Needy Families benefits because of Child Support non-cooperation. These findings will be repeated in the *Single Audit Report* for the year ended June 30, 2005.

Resolved Audit Findings

The current audit disclosed that the Department of Human Services had taken action to correct the previous findings concerning the failure to properly maintain case files, monitoring of organizations that provided services for the Division of Rehabilitation Services, monitoring of contractors in the Temporary Assistance for Needy Families Program, cost allocation, monitoring of organizations providing services for the Child Care program, and security over computer systems.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

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

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