

**DEPARTMENT OF HEALTH**

**FOR THE YEAR ENDED  
JUNE 30, 1995**

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July 18, 1996

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Fredia Wadley, Commissioner  
Department of Health  
426 Fifth Avenue North  
Nashville, Tennessee 37247-0101

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Health for the year ended June 30, 1995.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The department's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/mm  
96/025

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Health**  
For the Year Ended June 30, 1995

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of Health's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee; to determine compliance with laws, regulations, contracts, and grants; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Revenue Controls Inadequate\*\***

The department does not safeguard revenue items, restrictively endorse checks, immediately prepare receipts, adequately segregate duties, periodically account for receipts, or adequately reconcile detailed divisional revenue records with amounts recorded on the State of Tennessee Accounting and Reporting System (page 28).

## COMPLIANCE FINDINGS

### **Charges to Federal Programs Not Allocated Timely**

The department made accounting adjustments and continued to revise its schedule of Federal Financial Assistance more than five months after the deadline (page 18).

### **Payroll Costs Not Distributed to Federal Programs Timely**

The department did not allocate payroll costs to federal programs to allow for timely draws of federal funds and therefore lost interest on state funds (page 16).

**Overcharged Equipment Leasing  
Amounts Passed on to Federal Programs**

The department has charged federal programs for equipment leasing overcharges from the Office for Information Resources in the Department of Finance and Administration (page 24).

**Federal Grant-Funding Information  
Omitted From Property Records**

The department did not include vital grant funding information in the Property of the State of Tennessee (POST) equipment tracking system (page 26).

**Subgrantees Not Adequately  
Monitored\*\***

Financial reviews for the alcohol and drug grants were not timely. The department did

\* This finding is repeated from the prior audit.

\*\* This finding is repeated from prior audits.

not perform on-site monitoring visits for subgrantees of the Maternal and Child Health Services Block Grant, the Preventive Health and Health Services Block Grant, and the Childhood Immunization Grant (page 20).

**Controls to Detect Dual Participation in  
WIC and CSF Programs Inadequate \*\***

The department has not ensured that all entities implement controls to detect dual participation in the Commodity Supplemental Food Program and the Special Supplemental Food Program for Women, Infants and Children (page 27).

**PAST FINDINGS NOT ACTED UPON BY MANAGEMENT**

Prior audits have contained a finding about the Department of Health's use of improper "employer-employee" relationships. The department continues to contract with nonprofit organizations and human resource agencies for personnel whom these outside organizations hire and pay but who perform duties in state facilities and are directly supervised by state officials. Although the Department of Finance and Administration has granted the Department of Health an exception to contract rules, there is no authority in state statutes that allows long-term employer-employee relationships such as this. The Attorney General of the State of Tennessee addressed a similar situation in another department, determining that the department was not authorized to hire employees through outside agencies (page 7).

Prior audits have also contained a finding concerning supplemental pay to departmental employees. The department has stated that its position is to allow no new employees to receive supplemental pay. However, the department continues to pay supplements to those employees who were receiving supplements prior to July 1, 1987, insisting that attrition will correct the situation (page 8).

Further, prior audits have contained a finding about the department's failure to fully use the indirect cost allocation plan for the recovery of indirect costs from block grants. Management has stated that any policy or procedural change requiring indirect cost funds to be used solely for administrative expenditures would require a budget reorganization. However, the department has not revised its budget to address this issue (page 8).

A prior audit has also contained a finding concerning the development and implementation of effective controls to ensure participant eligibility and contractor performance in the Nursing Home Resident's Grant Assistance Program (page 9).

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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AUDIT REPORT  
DEPARTMENT OF HEALTH  
FOR THE YEAR ENDED JUNE 30, 1995

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DEPARTMENT OF HEALTH  
FOR THE YEAR ENDED JUNE 30, 1995

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

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

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

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the Department of Health’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee;
2. to determine compliance with laws, regulations, contracts, and grants; and
3. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.**

## SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1994, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

The Department of Health is part of the primary government of the State of Tennessee and is accounted for in the general fund. The audit covered the following divisions and allotment codes:

343.01	Executive Administration
343.03	Administrative Services
343.04	Information Resources
343.05	Manpower and Facilities
343.07	Emergency Medical Services
343.08	Laboratory Services
343.10	Health Related Boards
343.11	Chronic Disease Services
343.12	Chronic Renal Disease
343.13	Hemophilia
343.39	Food and General Sanitation
343.44	Alcohol and Drug Services
343.45	Health Services
343.46	Family Planning Services
343.47	Maternal and Child Health
343.48	Children's Special Services
343.49	Communicable Disease Control
343.52	Health Promotion
343.53	WIC Supplemental Foods
343.54	Health Systems Development
343.60	Local Health Services
343.65	TennCare Administration
343.66	TennCare Program Services
343.68	TennCare Long-term Care Services
343.70	Nursing Home Residents Grant Assistance Program

The services provided under allotment codes 343.65, 343.66, and 343.68 were transferred to the Department of Finance and Administration in January 1995.

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## BACKGROUND AND ORGANIZATION

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### **LEGISLATIVE HISTORY**

The General Assembly created the Tennessee Department of Public Health in 1923 to protect and improve the physical health of the citizens of Tennessee through the prevention of conditions that may be a threat to good health, individually and collectively, and through the treatment of conditions that have already affected the health of any Tennessean. Until that time, public health in Tennessee was administered by the State Board of Health, an advisory board established in 1877 as a result of widespread epidemics that occurred through the mid-1800's. In 1983, the Tennessee Department of Public Health was renamed the Tennessee Department of Health and Environment. In July 1991, the Bureau of Environment was transferred to the Department of Conservation, and the Tennessee Department of Health and Environment was renamed the Tennessee Department of Health.

The Commissioner of Health, appointed by the Governor, is charged with studying vital statistics for profitable use by the state, conducting sanitation investigations to determine causes of disease, and recommending works on hygiene for use in the state's schools.

### **ORGANIZATION**

The Department of Health comprises seven sections: Executive Administration, Bureau of Administrative Services, Bureau of Information Resources, Bureau of Manpower and Facilities, Bureau of Health Services, Bureau of Alcohol and Drug Abuse Services, and Bureau of TennCare. The Bureau of TennCare was transferred to the Department of Finance and Administration in January 1995.

#### Executive Administration

Executive Administration provides overall direction, coordination, and supervision for the state and local health departments to enable them to meet the health needs of the state's citizens. The commissioner, aided by the assistant commissioners, is responsible for coordinating the services of the department and executing the policies of the Public Health Council. In addition to the Office of the Commissioner, five other offices are located in this section: the Office of Internal Audit, the Office of General Counsel, the Personnel Office, the Division of Laboratories, and the Office of Minority Health.

### Bureau of Administrative Services

The Bureau of Administrative Services provides basic administrative and support functions for all program areas in the department and administers the State Medical Examiner's Program. Divisions include Fiscal Services, which processes invoices, travel claims, and payroll; Financial Management, which is responsible for the provision and coordination of program planning, evaluation, and budgeting and for the preparation of the annual appropriation requests, fiscal notes, and work program; General Services, which provides for central supplies and purchase of supplies and equipment; Facilities Management, which handles the department's office designs, capital outlay projects, and acquisition of office space; and Forensic Services, which provides administrative direction and support for the State Medical Examiner's Program.

### Bureau of Information Resources

The Bureau of Information Resources develops, implements, maintains, and operates information systems records; preserves and issues copies of all vital records; and collects, analyzes, and issues reports on vital health statistics, licensed health manpower and facilities, notifiable diseases, cancer incidence, and cost-containment activities.

### Bureau of Manpower and Facilities

The Bureau of Manpower and Facilities ensures the quality of medical resources available in the state through the regulation, certification, and licensure of health professionals, emergency medical services, medical and environmental laboratory services, and health care facilities. This bureau comprises the Division of Health Care Facilities, the Division of Emergency Medical Services, and the Division of Health Related Boards.

### Bureau of Health Services

The Bureau of Health Services works in coordination with four rural and six metropolitan regional offices and 95 county health departments to provide services which protect and promote health and prevent disease and injury. The bureau also works to improve access to quality health care services in underserved areas of the state and to underserved populations. The bureau comprises the following sections: Patient Care Services/Medical Director, Primary Care, Maternal and Child Health, Nutrition Services, Communicable Disease Control, Case Management, General Environmental Health, Epidemiology, Community Health Services, Assessment and Planning, Dental Services, and Population-Based Services.

### Bureau of Alcohol and Drug Abuse Services

The Bureau of Alcohol and Drug Abuse Services' mission is to decrease the incidence and prevalence of alcohol abuse and other drug abuse and dependence. This bureau coordinates services for the prevention of alcohol and drug abuse and for the treatment, care, and rehabilitation of persons with alcohol and drug abuse problems. The majority of these services are

administered through grants with nonprofit or local governmental agencies through two program components: Prevention Services and Treatment Services.

### Bureau of TennCare

The TennCare program offers health care coverage to three groups: those who are Medicaid-eligible, those who are uninsurable because of a health condition, and those who do not have access to health insurance. Participants with incomes above the poverty level pay premiums, copayments, and deductibles on a sliding scale based on their income.

TennCare provides comprehensive benefits through a system of managed health care. Services are provided through managed care organizations under contract with the state. TennCare participants may choose from a variety of managed care plans in their geographic area. Each health plan is monitored by the TennCare program to make sure that established guidelines for quality health care are followed. Preventive health care services are emphasized and are available at no cost for all participants, regardless of their income level.

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

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### PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Health filed its report with the Department of Audit on December 13, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.

### RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Health has corrected previous audit findings concerning late billings for TennCare enrollees, failure to monitor Medicaid claims for provider abuse, inadequate password protection for the Health Related Boards, and failure to allocate all eligible payroll costs to federal grants.



## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning internal controls over revenue, subgrantee monitoring procedures, and dual participation in the WIC and CSF programs. These findings have not been resolved and are repeated in this report.

In addition, the prior audit report contained findings concerning failure to return Medicaid refunds to the grantor timely and weaknesses in the Client Operation and Review System. These findings have not been resolved and will be repeated in the Department of Finance and Administration's audit report.

## **PAST FINDINGS NOT ACTED UPON BY MANAGEMENT**

Prior audits of the Department of Health have contained findings about the continued use of improper "employer-employee" relationships, the provision of supplemental pay to departmental employees, the drawdown and use of indirect cost funds, and development and implementation of effective controls in the Nursing Home Resident's Grant Assistance Program.

### Improper Employer-Employee Relationships

The Department of Health has entered into contracts with nonprofit organizations and human resource agencies to assist in implementing the Special Supplemental Food Program for Women, Infants, and Children; Infant Follow-Up Services; Prenatal Services; and other programs. Through these contracts, the Department of Health has directed the nonprofit organizations and human resource agencies to hire and pay certain individuals who perform duties in state facilities and are directly supervised by state officials. The contracts apparently create "employer-employee" relationships between the department and these individuals, but the department has given no consideration to the legal liability implications. The department has, in effect, increased the number of its employees without adding them to the state's payroll. Since these individuals are not employed by the state in authorized positions, the department has assumed the legislative role of creating positions.

The Department of Finance and Administration has approved the contracts, pointing out that Chapter 0620-3-3-.03(b) of the *Rules and Regulations of the State of Tennessee* gives the Commissioner of the Department of Finance and Administration, in consultation with the Department of Personnel, authority to approve contracts for services between state agencies and other entities. However, contracts creating employer-employee relationships are specifically prohibited by the *Rules and Regulations of the State of Tennessee*, Chapter 0620-3-3-.03(b), which states:

It is state policy that employees be hired through the merit system of the Department of Personnel, and that any contract creating an employer-employee relationship is prohibited. Therefore, only contracts with independent contractors, and not contracts representing the hiring of employees, will be approved.

To allow the department to continue to deliver services at the same level, officials from the Department of Health and the Commissioner of Finance and Administration have decided that the department will continue contracting with nonprofit organizations and human resource agencies for personnel and that the department will request, by letter, an exception to Chapter 0620-3-3-.03(b) on any contract establishing this employer-employee relationship. However, even though Chapter 0620-3-3-.08 of the *Rules and Regulations of the State of Tennessee* gives the Commissioner of Finance and Administration the authority to make exceptions to Chapter 0620-3-3-.03(b), there is no authority in the statutes that allows employer-employee relationships such as this.

In addressing a similar situation in the Department of Education, the Attorney General of the State of Tennessee determined that the department is not authorized to hire employees through agencies outside the department. His letter to the Comptroller of the Treasury, dated July 2, 1986, stated:

When the Department of Education hires employees, it must do so through the state Department of Personnel and its system of administration based on merit. *T.C.A. Section 4-4-106, 8-30-201 et seq.* No provision of statute or regulation authorizes the Department to avoid the merit personnel system by hiring employees through a local education agency.

The Department of Health and the Department of Finance and Administration do not concur with the auditors' position on this matter.

#### Supplemental Pay

The Department of Health, without authorization, has allowed certain employees to receive supplemental pay from the counties employing them. Section 68-2-603, *Tennessee Code Annotated*, states that county health directors and county health officers "shall have compensation paid, all or in part, by the department of health." However, there is no provision in the law granting authority for supplemental pay to employees other than county health directors and county health officers. Although the Department of Health has concurred with this repeat finding, its position is to allow no new unauthorized employees to receive supplemental pay. This position, however, allows employees other than county health directors and health officers who were receiving supplements prior to July 1, 1987, to continue to receive such pay. The department believes attrition will correct this situation.

#### Draw Down and Use of Indirect Cost Funds

The Department of Health has not fully used the departmental indirect cost allocation plan for the recovery of indirect costs from block grants. Management uses eligible indirect costs for program expenditures and spends a large portion of previously recovered indirect costs for program services.

The department enters into an annual agreement with the Division of Cost Allocation in the U. S. Department of Health and Human Services specifying the terms of the indirect cost allocation plan. The plan identifies departmental, bureau, divisional, and statewide indirect costs. The departmental, bureau, and divisional indirect costs are those incurred at a particular level for a common purpose, which benefit more than one program, function, or activity, and therefore are not directly assignable to a single program, function, or activity. Statewide indirect costs are the costs of central governmental services distributed through the statewide cost plan that are not otherwise treated as direct costs. Using the indirect cost allocation plan, the department can allocate total indirect costs by bureau or by division.

When indirect costs are not systematically drawn as a part of the program's operating costs, they are, in effect, hidden and must be paid from other sources. Although the allocation of indirect costs may actually shift the use of available federal funds from program operations to administrative overhead, the allocation is essential to present fairly the costs of administering the programs. Likewise, when earned indirect costs are used to fund program services, the true level of state expenditures incurred to fund the program is hidden and state funds are used to fund activities at the departmental level. The decision whether additional state funds should be used for federal programs is more appropriately addressed through the legislative budget process than by departmental determination.

Management has concurred with the finding, stating that the department's policy is to maximize the utilization of all available federal grant dollars and that the budget is predicated and reflective of these efforts. Furthermore, management has stated that any policy or procedural change requiring indirect cost funds to be used solely for administrative expenditures would necessitate a budget reorganization within the department that would have to be approved by the Commissioner of Finance and Administration and the legislature through the Appropriation Request process. However, the Department of Health has not revised its budget to address this issue.

#### Administrative Controls for the Nursing Home Resident's Grant Assistance Program

As noted in the prior audit, the department has not established adequate administrative controls over the Nursing Home Resident's Grant Assistance Program to ensure participant eligibility and contractor performance. Furthermore, although payments to participants are based on the average per diem reported by nursing homes, no limit has been established for the per diem. Although management concurred in part, no improvements have been made.

The purpose of this state-funded program is to provide financial support for eligible nursing home residents who do not have their nursing home care paid in whole or in part by a federal or other state program. A private contractor is responsible for developing, implementing, and maintaining a systematic process to provide financial support for eligible individuals. Part of this responsibility includes processing applications submitted by participants and turnaround documents completed by nursing homes.

Program applicants certify on their applications that they do not receive other federal or state assistance. Financial eligibility is determined by subtracting the annual nursing home expenses from the applicant's adjusted annual income. Payments to participants are based on monthly turnaround documents completed by each nursing home to certify the number of days the residents did not receive other assistance and to report the average per diem expense for the nursing home. Neither the department nor the contractor verifies the accuracy of information on the applications or the turnaround documents.

The department does not monitor the program contractor or the documentation provided by the nursing homes. If patient eligibility and contractor performance are not monitored, funds could be disbursed to ineligible participants.

Management should assign specific responsibility for developing and implementing procedures to verify the eligibility of participants and the accuracy of information reported by nursing homes. Procedures should include steps for monitoring the program contractor and taking corrective action when problems are identified. Management should ensure that the procedures are adequate and fully implemented.

Management concurred in part with the finding. Management stated that when the Nursing Home Resident's Grant Assistance Program system was being planned and designed, they felt that certain controls would not be cost effective nor reasonable for a program of this type. Management also stated that while there are some very broad eligibility requirements in the law which established this program, certain other financial eligibility information verification was left to the discretion of the department. At the time, the department had chosen not to further verify the eligibility of participants or the accuracy of information reported by nursing homes. The intent of the program is to provide a small amount of assistance (maximum of \$201.50 for a 31 day month) to persons in nursing homes who are paying their own way, that is, their care is not paid for by a state or federal program such as Medicaid or Medicare. The department's management agreed that it could develop and implement procedures to more accurately verify the eligibility of participants and the accuracy of information reported by nursing homes, but stated that it was not appropriate to do so particularly in the early stages of developing the program, given the population involved, the intent of the program, the relatively small grant amounts available, the reliance on a large and diverse group of nursing homes for information, and the involvement of the Tennessee Health Care Association.

In response to the recommendation that procedures be developed and implemented for monitoring the program contractor, management stated that it felt that the contractor was being monitored in a variety of ways. However, management said it would look at this situation further to determine if additional, more formal procedures were needed to adequately monitor the program contractor.

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## OBSERVATIONS AND COMMENTS

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*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1995, the Department of Health filed its compliance report and implementation plan on June 16, 1995.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for the Title VI compliance and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control Structure

As part of the audit of the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1995, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the state's general-purpose financial statements as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations, which follow the report on the internal control structure. Consideration of the internal control structure disclosed no material weaknesses.

### Compliance with Laws and Regulations

With respect to the items tested, the Department of Health complied with the provisions of laws, regulations, contracts, and grants that may have a material effect on the state's general-purpose financial statements. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

**Report on the Internal Control Structure Based on an  
Audit of the General-Purpose Financial Statements Performed in  
Accordance with *Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the general-purpose financial statements of the State of Tennessee, as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995. The Department of Health is part of the primary government of the State of Tennessee.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

The Department of Health's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is

subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the state's general-purpose financial statements for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted one matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department of Health's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

The following reportable condition was noted: Revenue procedures and controls are inadequate. This condition is described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the Department of Health's management in a separate letter.

The Honorable W. R. Snodgrass  
December 21, 1995  
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This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/mm

## FINDINGS AND RECOMMENDATIONS

### GRANT PAYROLL COST REALLOCATION AND DRAWDOWN PROCEDURES WERE NOT ADEQUATE

#### 1. FINDING:

The department failed to promptly draw down federal funds because reallocation journal vouchers were not processed timely or based on actual data. In order to reallocate certain payroll costs to various federal grants, the department uses a time study to measure the amount of time that direct service employees (employees who provide direct services in local and regional health department programs) have worked on various programs and activities.

Payroll costs are not drawn for federal programs until the reallocation journal voucher is processed. During the first three quarters of the fiscal year, the payroll cost reallocations were not performed monthly as required by the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues." Policy 20, Attachment 20 - A, "Procedure for the Redistribution of Payroll as it Relates to Grants," parts 2 and 3, states that "payroll costs . . . associated with grants must be redistributed to recover federal revenue on a timely basis . . . the payroll costs must be entered in STARS on a reallocation journal voucher within 30 days of each month-end." Ideally, payroll costs should be reallocated each pay period, but never less than once per month.

Because reallocations were performed quarterly, the first and second months of each quarter were not processed within 30 days of the end of the month as required. One month's reallocation was performed 98 days late.

Because payroll costs were not reallocated timely, federal revenue associated with those payroll costs was not recovered timely. When federal funds are not drawn down promptly, state funds are used to fund federal grant expenditures, resulting in a loss of interest income to the state.

In addition, the reallocations were initially calculated using time study data from prior quarters, not current quarter data. The first two quarters of the audit period have since been recalculated using the correct information, but this adjustment was not made until February 2, 1995. The third quarter still had not been adjusted as of December 19, 1995.

If the reallocations are not based on actual current data, the amount of federal revenue recovered may not be correct. In addition, the charges to grants for the costs of

supplies and equipment used by multiple programs may not be correct because the department also uses the time study to reallocate these costs to grants.

Furthermore, the department did not comply with the Cash Management Improvement Act Agreement between the State of Tennessee and the Secretary of the Treasury, United States Department of Treasury (CMIA agreement) in that they did not draw indirect costs in each request for funds by applying the indirect cost rate to the appropriate direct cost basis of each post issuance drawdown. Instead, the department expensed indirect costs monthly using a journal voucher to apply the indirect cost rates to all grant payroll costs which had been processed in STARS since the last expensing of indirect costs. After the journal voucher was processed in STARS, the indirect cost amount was drawn in conjunction with post issuance draws.

RECOMMENDATION:

The director of Fiscal Services should ensure that payroll costs are reallocated timely for each pay period and never less than once per month (within 30 days of month-end as required by the Department of Finance and Administration's Policy 20); reallocations are based on current period data; and indirect costs are drawn in compliance with the CMIA agreement.

MANAGEMENT'S COMMENT:

We concur. Payroll costs are now being reallocated for each pay period on an estimated basis using the latest available actual month's time study as the basis for the estimate. Federal funds are then drawn based on the estimated reallocation. Upon receipt of the actual time study information for that payroll month, the estimated reallocation is corrected to actual and the federal funds are adjusted accordingly. This methodology was concurred in by the Department of Finance and Administration.

The department's indirect cost rates are based on salaries and benefits. Therefore, we are now drawing indirect cost twice a month based on the two payrolls after reallocation. However, we are still using a journal voucher to expense the indirect cost so that it will be shown on the 833 Draw Report which we believe is proper. We have worked with Cash Management in Finance and Administration to ensure that the methodology we are using complies with the Cash Management Improvement Act Agreement.

THE DEPARTMENT DID NOT COMPLETE ITS ALLOCATION OF CHARGES TO  
FEDERAL PROGRAMS ON A TIMELY BASIS

2. FINDING:

The year-end closing procedures memorandum from the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury requires each department to prepare its Schedule of Federal Financial Assistance (SFFA) for the year ended June 30, 1995, by September 30, 1995. The Tennessee Department of Health submitted its SFFA by the deadline; however, the department had not completed its final allocation of charges to federal grants and programs and continued making adjustments to the grants and revising the schedule. The department continued to update its SFFA until March 14, 1996, more than five months after the required deadline date and almost three months after the end of audit fieldwork.

The state's closing procedures require agencies to enter all reallocation journal vouchers on the State of Tennessee Accounting and Reporting System (STARS) by August 18, 1995. The department, however, continued to enter these journal vouchers as late as December 18, 1995. As a result, five revisions of the schedule were submitted to the auditors after the end of fieldwork with changes affecting nine federal financial assistance programs (totaling 18 grants). The changes ranged from (\$304,826.83) to \$1,628,258.74.

The untimely reallocations of expenditures between state and federal charges, between grants, and between grant years; errors in preparation of the schedule; poor communication between the accountant who prepares the schedule and those who process charges to the grants; and the failure of management to review the schedule all contributed to the delay and the numerous changes.

It is the department's responsibility to prepare accurate federal financial schedules on a timely basis. Frequent and substantial changes to the schedule raise questions about the department's ability to comply with federal financial reporting requirements to provide accurate and timely reports. The longer the department takes to accurately determine program costs, the more likely the department is to jeopardize the recovery of allowable costs. Furthermore, changes of this magnitude impede the audit process and could lead to questioned costs.

The SFFA for all state departments and agencies is presented in the State of Tennessee Single Audit Report submitted to the federal government in compliance with the Single Audit Act of 1984. This schedule is compiled from the schedules submitted by the departments and agencies. Without the department and agency schedules, the Department of Finance and Administration cannot compile the schedule in compliance with the Single Audit Act of 1984.

RECOMMENDATION:

The director of Fiscal Services should ensure that the Department of Finance and Administration's year-end closing procedures are followed and that the responsible accountant properly prepares the Schedule of Federal Financial Assistance timely. The director should also review the department's SFFA to ensure the schedule is accurate, complete, and properly supported.

Communication between the accountants who process charges to the grants and the accountant who prepares the Schedule of Federal Financial Assistance should be improved, and all reallocations should be determined and processed so that federal financial reports may be filed on a more timely basis.

MANAGEMENT'S COMMENT:

We concur in part. Although journal vouchers were still being processed as late as December 1995, they were done so in an effort to accurately allocate costs to all of our major federal grants primarily as the result of time and effort reports being maintained by approximately 2,000 state employees statewide. This was the first year that these allocations were being made on the basis of a one week per month time study. Mistakes were made and various problems had to be resolved resulting in revised calculations and reallocations. Although such corrections and reallocations are unacceptable, they are to be expected. The alternative -- not making any adjustments or corrections -- was not nor is not acceptable to this department. We feel that steps are being taken to preclude this same problem from reoccurring in the future thereby enabling us to meet timeframes established by the Department of Finance and Administration.

We take issue to the accusation that "[Frequent and substantial] changes [to the schedule] raise questions about the department's ability to comply with federal financial reporting requirements to provide accurate and timely reports." No inaccurate or untimely reports have been cited in the findings and steps that we took were to insure that reports submitted accurately reflected allowable program costs.

REBUTTAL:

**We believe that the frequent and substantial changes to the schedule could affect the department's ability to report accurate and timely federal financial reports.**

## MONITORING OF SUBGRANTEES IS NOT ADEQUATE

### 3. FINDING:

As noted in the three prior audits, subgrantees of the Department of Health have not been adequately monitored. Management concurred with the prior findings. In the last audit report, management stated that monitoring visits should be documented and reported in a timely manner, that new procedures were being developed in the Bureau of Health Services, and that improvements would be made in the Bureau of Alcohol and Drug Abuse Services (A&D). However, problems still exist.

- a. A&D does not conduct on-site fiscal monitoring reviews of all its subgrantees regularly. Testwork on Block Grants for Prevention and Treatment of Substance Abuse subcontractor reports also revealed that the subcontractors did not submit expenditure reports on time. Also, department personnel did not review quarterly expenditure reports timely. Further, the department does not keep adequate records of when the quarterly subrecipient expenditure reports were received and therefore it could not be determined whether they were received timely. The fiscal office had not received 29 of 107 quarterly reports (27%) as of November 30, 1995 (106 days late).
- b. Files for subrecipients of three grants (the Maternal and Child Health Block Grant, the Preventive Health and Health Services Block Grant, and the Childhood Immunization grant) administered by the Bureau of Health Services were reviewed for evidence of compliance monitoring. Of the ten recipients whose files were tested, one (according to department personnel) had been monitored by telephone with no on-site visits. No documentation of monitoring was provided for two subrecipients; one subrecipient was not monitored; and weaknesses were not followed up for one subrecipient.

With regard to monitoring for fiscal controls and procedures, out of ten subrecipients whose files were tested, one had been monitored by telephone, not on-site (according to department personnel); the files for two contained no documentation of monitoring; and four were not monitored.

- c. As noted in the prior audit report, procedures for monitoring TB Outreach grant subgrantee contracts with metropolitan health departments are not adequate, and no on-site monitoring visits were performed for the Childhood Lead Poisoning Prevention Program grant.

Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," requires the department to "determine whether the subrecipients spent Federal assistance funds provided in accordance with applicable laws and

regulations.” Also, Section 40 of OMB Circular A-102, “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule),” states that the grantee is responsible for monitoring both its own activities and the activities of its subgrantees.

Monitoring also involves obtaining and reviewing subrecipient audit reports, which are prepared by independent auditors. The Division of Internal Audit, which is responsible for reviewing all audit reports, uses a computer database to keep track of the department’s subrecipients. The database includes such information as the name of the subrecipient, the contract period, and the dollar amount of the contract. In three of ten audit reports reviewed, contract amounts in the database did not agree with the amounts in the audit reports. Department personnel indicated that a comparison of individual contract amounts typically has not been a part of their review process.

Some subrecipient independent auditor reports contained questioned costs and amounts due to the state. In three of five reports tested, costs questioned in the audit report were not resolved timely. Also, the department’s procedures for reviewing the audit reports did not include following up on other reported audit exceptions (such as internal control weaknesses) in addition to questioned costs and amounts due to the state.

The “Questions and Answers on Single Audit Provisions” Circular A-128 (Answer 25b), issued March 1991, states that it is the recipient’s responsibility to “establish a system for follow-up on questioned costs, weaknesses in internal control systems, and other audit exceptions and ensure that appropriate corrective action is taken within 6 months.”

The department cannot determine compliance with applicable laws and regulations if appropriate monitoring procedures are not performed. Furthermore, funds could be used for objectives not associated with the grant or contract, and subrecipient errors and irregularities could occur and not be detected.

#### RECOMMENDATION:

The director of the Bureau of Alcohol and Drug Abuse Services should continue to require timely submission of subcontractor reports and consider appropriate action for late reports. The accounting staff should promptly review the subcontractor reports for accuracy and for contract compliance. In addition, the date of receipt of subrecipient reports should be documented.

The director of the Bureau of Alcohol and Drug Abuse Services and the Assistant Commissioner of the Bureau of Health Services should assign specific responsibility for annual program and fiscal monitoring of all subrecipients of grant funds. All monitoring should be sufficiently documented, and deficiencies should be promptly reported to subrecipients. Recommendations and deficiencies previously noted should be followed up,

and this process also should be documented. New and/or additional monitoring policies or guidelines should be developed to improve monitoring efforts. Monitoring should be conducted on-site rather than over the telephone.

The director of Internal Audit should ensure that inconsistencies and discrepancies noted in subrecipient audit reports are accounted for and that the explanations are documented. All audit exceptions should be followed up and resolved within six months of receipt of the audit report.

MANAGEMENT'S COMMENT:

The department concurs with this finding. The following comments by Bureaus are as follows:

- a) The Bureau of Alcohol and Drug Abuse concurs and to encourage timely quarterly reporting of expenditures consistent with Policy 03, the Bureau of Alcohol and Drug Abuse Services (BADAS) now notifies, in writing, all subgrantees whose reports are late. Contract payments are withheld pending receipt of the reports.

BADAS is moving toward securing patient care through a fee for service methodology. This change will significantly modify the monitoring activities of the Bureau. BADAS is developing monitoring policies consistent with fee for service for treatment services. Concurrently, scopes of services in prevention contracts are being refined to better define the activities and allow for more consistent measurement of activities in relation to budget.

Because of the changes in the way treatment services are purchased, monitoring will, of necessity, be on site, and will include a review of pertinent information concerning the facility and staffing, as well as review of the documentation of the services provided.

- b) The Bureau of Health Services:

- 1. Fiscal Services: We concur. The Bureau of Health Services, Fiscal Services Section, will conduct annual training for its subrecipients on quarterly report procedures. This should improve the timeliness and consistency of the quarterly report process. A tracking system will be developed to monitor the receipt and timeliness of the subrecipients reports.

Key fiscal service staff will be cross-trained to use current fiscal monitoring procedures. These staff members will establish a multi-

functional team to develop a written monitoring plan which will include:

- A definition of fiscal monitoring/contract compliance
- A risk assessment component
- An annual plan of subrecipients to be monitored
- A monitoring tool
- Desk review procedures for quarterly reports
- Recommendations and follow-up procedures

When the monitoring plan is approved, training will begin for all contract management staff and responsibility for fiscal monitoring/contract compliance for subrecipients will be assigned.

2. Maternal and Child Health Block Grant: We concur. Although there was no documentation of fiscal monitoring, this will be corrected in future monitoring visits (see response from Fiscal Services Section).
3. Preventive Health Services Block Grant: We concur. To insure that this Block Grant is adequately monitored, the Community Health Services Section established a contract monitoring procedure for Fiscal Year 1995-96 which will assure that all critical contracts are reviewed. Teams comprised of at least two members of the section have been assigned to make site visits to all identified contract agencies during the Spring, 1996. Before the visit, team members discuss the project with the section chief who reviews the scope of services, past accomplishments and any particular issues affecting program activities or the vendor. The team makes a site visit to determine the extent of current year achievement and submits a recommendation on future funding, along with a synopsis of their findings. A letter is sent the vendor summarizing the team's findings and, if appropriate, recommending changes or other options that the vendor might consider for improving expected outcomes.

Childhood Immunization Grant: We concur. Since December 1995, a state employee has served as Director of the Immunization Program and has visited each of the metropolitan health departments for Block Grant compliance monitoring and has met with Vanderbilt University to discuss the components of their contract. (See General Comments, below.)

4. TB Outreach Grant: We concur. Site visits were made by the TB Program Director, but adequate documentation was not prepared. (See General Comments, below.)

Childhood Lead Poisoning Prevention Program: We concur. While site visits to the contract agencies were made during the audit period, a specific audit tool was not utilized. However, in June 1995, an audit tool was developed and during August - November, 1995, each agency was monitored. (See General Comments, below.)

5. General Comments: Program directors have been instructed to include written follow-up of monitoring visits to contract agencies in the program administrator's file. Also, the Fiscal Services Section (FSS) of the Bureau of Health Services has assumed responsibility for fiscal monitoring of contracts. FSS will develop a monitoring tool and include program directors in the evaluation process (See FSS response at the beginning of Finding 3). Additionally, the Administrative Services Director of the Communicable and Environmental Disease Services Section will visit each metropolitan health department within the next six months to review contract expenditures.

- c) The Office of Audit and Investigations concurs. It must be noted that this office cannot ensure that all inconsistencies and discrepancies noted in subrecipient audit reports are resolved within six months of receipt of the report. This office will make every effort to work with subrecipients and will make every effort to clear exceptions as soon as a report is received.

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OIR OVERCHARGES HAVE BEEN PASSED  
ON TO FEDERAL PROGRAMS

4. FINDING:

The Office for Information Resources in the Department of Finance and Administration continued to charge the Department of Health for computer equipment the department no longer had. Despite requests by the department to stop the charges, OIR continued to automatically charge the department's allotment codes and cost centers for this surplus equipment each month, using front-end billing journal vouchers. Because OIR's detailed list of charges did not list equipment tag numbers, the department could not determine precisely what equipment it was being billed for each month.

Some of the allotment codes and cost centers automatically charged are used exclusively for federal grants and have been charged for some of the surplus equipment. Because the department could not isolate these costs, it was unable to determine which grants and what amounts were charged. According to Office of Management and Budget, A-87, "Cost Principles for State and Local Governments," charges must be "necessary and reasonable for proper and efficient administration of the grant program." The department, therefore, may face questioned costs for these equipment charges.

OIR changed its billing format after June 30, 1995, to include tag numbers, allowing the department to more easily determine the propriety of charges. However, OIR has not discontinued all unnecessary charges and has made no attempt to reimburse the department for the excess charges.

#### RECOMMENDATION:

The Department of Health's Bureau of Information Resources director in conjunction with the fiscal director and federal program directors should identify, to the best of their ability, the amounts that have been overcharged to federal programs over the past years and make necessary arrangements with the federal agencies to correct past errors. These directors should also ensure that any current or future improper amounts are removed from allotment codes and cost centers that are tied to grants to prevent the costs from being passed on to federal programs.

#### MANAGEMENT'S COMMENT:

We do not concur. While we agree that inappropriate billings occurred, we feel that the audit exception should be addressed to the Department of Finance and Administration. OIR charges the department's programs on a front-end billing journal voucher on which we have no choice but to pay. We repeatedly raised issue with these billings in past years trying to cause changes to be made, but to no avail.

We also feel that the issue of any overcharges which may have occurred is not just applicable to federal funds but to state funded costs as well. This department cannot make any realistic attempt to correct any of these past over charges until and unless we are provided corrected billings from OIR.

**REBUTTAL:**

**The inappropriate billings discussed in this finding have been addressed to the Department of Finance and Administration in a separate audit report. However, it is still the responsibility of the Department of Health to ensure that it has not charged erroneous equipment costs to federal and state programs. The Department of Health should work with the Department of Finance and Administration to obtain corrected billings in order to correct any possible overcharges to federal programs.**

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**THE DEPARTMENT DID NOT RECORD GRANT-FUNDING  
INFORMATION IN THE STATE PROPERTY RECORDS**

5. **FINDING:**

Grant information (grant number and percentage of federal funds) was not entered into POST (Property of the State of Tennessee), the state's property and equipment-tracking system, for 13 of 13 federally funded equipment purchases tested. The problem appears to lie with those initiating the purchase, as well as those entering the information. If the purchase documents are not marked as federal, the only indicator that the purchase is being made with federal funds is the allotment code and cost center used, e.g., ones used exclusively for federal grants.

The department must be able to distinguish between state and federal property. The U. S. Department of Health and Human Services, Public Health Service (PHS) *Grants Policy Statement* (Rev. April 1, 1994), states that in certain cases grantees should report income earned from the sale of equipment purchased with grant funds on the Federal Financial Status Report (page 8-10). "PHS has the right to require transfer of the equipment, including title, to the Federal Government or to an eligible third party" (page 8-13). If the equipment is damaged beyond repair, lost, or stolen, the recipient may be accountable to PHS for "an amount equal to the Federal share of the original equipment times the fair market value" (page 8-14). If equipment purchased with federal grant funds is not identified as such in the property records, the department's ability to transfer equipment, dispose of equipment, or reimburse the federal government in accordance with federal laws and regulations is greatly reduced.

RECOMMENDATION:

Employees who initiate equipment purchases that are to be funded with federal funds should note critical grant information on the face of the purchasing documents.

The director of the Division of General Services should develop and implement procedures to ensure that the required grant information is entered into the POST system.

MANAGEMENT'S COMMENT:

We concur. Steps have been taken to ensure that equipment purchase orders contain the required grant information for entering into the POST system.

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FOR THE FIFTH YEAR THE DEPARTMENT HAS FAILED TO IMPROVE  
CONTROLS TO DETECT DUAL PARTICIPATION IN  
THE WIC AND CSF PROGRAMS

6. FINDING:

As noted in five prior audits, the department has not ensured that all four entities that administer the Commodity Supplemental Food (CSF) program implement controls to detect dual participation in the CSF program and the Special Supplemental Food Program for Women, Infants, and Children (WIC). Management concurred with the prior audit findings and stated that changes were being implemented. However, for federal fiscal year ended September 30, 1994, controls were not adequately implemented. Ten of 12 monthly reports (83%) were not generated for MAP-South, Inc., a nonprofit contractor, nor for Dyer County; and three of 12 monthly reports (25%) were not generated for Shelby County. Davidson County generated all 12 monthly reports required. However, of the 25 monthly dual-participation reports generated by the four entities, 16 (64%) ranged from two months to nine months late.

The *Code of Federal Regulations*, Title 7, Part 11, Section 247.7 (j), states that the state agency responsible for the CSF program should implement a system to detect and prevent dual participation and that participants found committing dual participation shall be terminated immediately.

Because the dual-participation reports are not generated each month, participant abuse of the CSF and WIC programs may go undetected.

RECOMMENDATION:

The director of the Bureau of Information Resources should determine why reports are not generated and used to detect dual participation, assign specific responsibility for implementing an effective process, monitor operations to ensure the process is implemented, and take corrective action when the problem is not corrected.

MANAGEMENT'S COMMENT:

We concur with this finding. As of the writing of this response, all reports for which data has been submitted have been generated. Currently, the Metro Nashville tape for April 1996 has not been received and the user has been notified.

For more than two years, the Bureau of Information Resources (BIR) received erroneous data from Memphis/Shelby County (MSC). MSC had been notified repeatedly, and the problem was never resolved. MSC responded that this was a low priority item to their central information systems shop. In January 1996, BIR requested that OIR modify the current CSFP system to bypass the erroneous records so processing could be completed. These records appeared to be duplicates, so no actual data has been lost in this bypass process. This system was then brought back to current status in February 1996 and has remained current.

BIR staff has been instructed to execute the updates and reports as soon as the data has been received each month. In addition, if the data is late arriving, BIR staff will notify the program area that the data has not been received.

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FOR THE FOURTH YEAR THE DEPARTMENT'S REVENUE PROCEDURES  
AND CONTROLS ARE INADEQUATE

7. FINDING:

As noted in the four prior audits, the department's revenue procedures are inadequate. Although improvements have been made, the following control weaknesses were noted in various areas within the department:

- a. Revenue items are not adequately safeguarded in several areas of the department. Funds are kept in a locked cabinet at General Environmental Health (GEH); however, the key is not secured. Health Statistics Information (HSI) collects funds in an unsecured bin before writing receipts and endorsing revenue items. In addition, credit card numbers on receipts at Vital Records are not adequately protected from theft and misuse.

- b. Checks are not restrictively endorsed immediately at Fiscal Services, HSI, the West Tennessee Regional Health Office, or the Rogersville and Church Hill County Health Departments.
- c. No receipt or cash receipt listing is prepared when mail is opened at Laboratory Services, HSI, and Health Related Boards.
- d. Duties are not adequately segregated at Fiscal Services, Laboratory Services, and HSI. At Fiscal Services, the same person writes receipts, prepares deposits, and posts to accounting records. One person has complete control over the billing system at Laboratory Services. At HSI, two people are designated to open mail and write receipts. However, the same person generally opens mail, writes receipts, and prepares deposits. Inadequate segregation of duties concerning cash-receipting procedures were also noted at the Church Hill and Rogersville County Health Departments and the East Tennessee Regional Office.
- e. Although prenumbered cash receipts are used, the receipt numbers are not periodically accounted for at GEH, Fiscal Services, HSI, the West Tennessee Regional Health Office, the Health Related Boards, the Bureau of Information Resources, and the Upper Cumberland Regional Health Office.
- f. The department did not adequately reconcile detailed revenue records with amounts recorded on STARS. No reconciliations were performed at Fiscal Services or the West Tennessee Regional Health Office. Reconciliations were incomplete at Laboratory Services and were not completed timely at GEH.
- g. The Regulatory Board System (RBS) at Health Related Boards is a licensing and renewals system designed to issue licenses and license renewals for regulatory boards. The system is not a financial accounting system, however, staff at HRB attempt to use the system to reconcile revenue at HRB with revenue recorded on STARS. At June 30, 1995, there was a difference of \$95,967.14 between RBS revenue and STARS revenue. Additional revenue testwork did not indicate any misappropriation of revenue had occurred.

RECOMMENDATION:

The director of Administrative Services should assign specific responsibility to ensure that all revenues are properly controlled. Written procedures for properly accounting for receipts, adequately safeguarding assets, properly segregating duties, properly reconciling accounts, immediately preparing receipts or receipt listings, and promptly endorsing revenue items should be developed, implemented, and monitored.

The department should work with OIR to implement changes to the Regulatory Board System to allow for proper reconciliation of RBS revenue to STARS.

MANAGEMENT'S COMMENT:

We concur in part. The finding contains several statements with which we do not concur and some we concur with. The response is separated by area as was stated in the finding:

a) Bureau of Health Services Administration:

General Environmental Health (GEH): We concur. Stricter measures for key security will be developed for the revenue storage cabinet.

Health Statistics Information (HSI): We concur. Internal Audit has met with HSI staff of the Assessment and Planning Section to develop procedural changes to correct the findings. Procedural changes include:

1. Numbered receipts will be logged by one of seven people whose systems generate revenue. Checks will be restrictively endorsed immediately upon receipt and deposits will be forwarded to Fiscal Services (BA) daily.
2. The receipt log will be reviewed and initialed daily by the section administrator or his/her designee.

b) Bureau of Administrative Services:

We do not concur. It is our policy to restrictively endorse all checks immediately upon receiving them. On occasion this might not occur due to various circumstances, but it is our practice and policy to do so.

REBUTTAL:

**Although it may be the policy of the Bureau to restrictively endorse all checks immediately, the discussions and observations made during the audit clearly demonstrate the policy is not being carried out. In fact, on October 13, 1995, the Administrative Services Assistant II in the Bureau of Administrative Services informed the auditors that during the audit period checks were not restrictively endorsed before moving to the next step in the receipt process. In addition, during a walk-through of the Bureau's operation, the auditors confirmed by observation that checks were not being endorsed when the mail was opened. Based on the tone of the response to this section of the audit finding, it is recommended that top**

**management of the Department of Health closely review the activities of this Bureau to satisfy themselves that the policies they have established are appropriate and are being properly carried out.**

Bureau of Health Services Administration:

West Tennessee Regional Office: We do not concur. All checks received at the West Tennessee Regional Health Office are immediately stamped "For Deposit Only, Treasurer, State of Tennessee" with the appropriate account code. Checks are then receipted and deposited.

**REBUTTAL:**

**Although it may be the policy of the Bureau to restrictively endorse all checks immediately, the discussions and observations made during the audit clearly demonstrate the policy is not being carried out. On October 9, 1995, the Program Director for the Special Supplemental Food Program for Women, Infants and Children in the West Tennessee Regional Health Office informed the auditors that during the audit period checks were not restrictively endorsed when the mail is opened and before moving to the next step in the receipt process. Based on the tone of the response to this section of the audit finding, it is recommended that top management of the Department of Health closely review the activities of this Bureau to satisfy themselves that the policies they have established are appropriate and are being properly carried out.**

Rogersville Office: We concur. At the time of the audit, the office was inadequately staffed. Currently, mail is opened and checks are immediately endorsed and logged by the Administrative Services Assistant.

Church Hill Office: We concur. The Office Manager now opens mail and immediately endorses and logs checks.

c) Bureau of Manpower and Facilities:

We concur. However, due to time and staff limitations and the volume of incoming checks, the use of a check register or receipt listing would hinder the flow of work to such a degree that a 24 hour turnaround on deposits would no longer be possible.

A receipt is written for all cash payments received and for a check when requested. Currently, every check is validated and restrictively endorsed upon receipt and secured in a safe overnight.

d) Bureau of Administrative Services:

We concur. Steps will be taken to ensure that duties are adequately segregated at Fiscal Services.

Bureau of Health Services Administration:

Rogersville Office: We concur. Responsibilities have been divided between five office employees to insure proper segregation of duties concerning cash receipting procedures.

Church Hill Office: We concur. Responsibilities have been divided between four office employees to insure proper segregation of duties concerning cash receipting procedures. Another office employee will be added in the near future to further segregate these responsibilities.

East Tennessee Regional Office: We concur. In the future, no one person will perform more than one of the cash receipting and depositing functions.

e) Bureau of Administrative Services:

We do not concur. Whenever we open a new box of cash receipt books, we maintain a log of where in the department each book is sent. The boxes of new books are kept in a locked room in the basement of the Cordell Hull Building that has limited accessibility but is probably not foolproof. Used up books of receipts are maintained at the area where they were used and are not sent back to us.

**REBUTTAL:**

**The results of the audit clearly indicate that the individual receipt numbers for the prenumbered cash receipt books are not being periodically accounted for. It is the responsibility of top management of the Bureau of Administrative Services to ensure that adequate internal control over the collection of cash is in place. Strict accountability over prenumbered cash receipts is an essential control over the cash receipting process. Based on the tone of the response to this section of the audit finding, it is recommended that top management of the Department of Health closely review the activities of this Bureau to satisfy themselves that proper controls over cash receipts are being carried out.**

Bureau of Health Services Administration:

General Environmental Health: We concur. General Environmental Health, in conjunction with the Fiscal Services Section of the Bureau, will develop a system of receipt book accounting.

West Tennessee Regional Office (WTRO): We do not concur. Receipts are kept in a locked file cabinet and are managed, accessed and issued only by WTRO accounting staff. Receipt books are logged in when an order is received and logged out when issued. These procedures assure that none are missing nor issued without authorization.

**REBUTTAL:**

**The results of the audit clearly indicate that the individual receipt numbers for the prenumbered cash receipt books are not being periodically accounted for. The auditors were informed on October 9, 1995, by the Program Director for the Special Supplemental Food Program for Women, Infants and Children, that individual receipts are not being periodically accounted for. It is the responsibility of top management of the Bureau of Administrative Services to ensure that adequate internal control over the collection of cash is in place. Strict accountability over prenumbered cash receipts is an essential control over the cash receipting process. Based on the tone of the response to this section of the audit finding, it is recommended that top management of the Department of Health closely review the activities of this Bureau to satisfy themselves that proper controls over cash receipts are being carried out.**

Upper Cumberland Regional Office: We concur. In the future, the Regional Office Environmental Supervisor will audit receipt books against temporary permits issued during routine two-week visits to the field.

Bureau of Manpower and Facilities:

We do not concur. Receipt books and numbers can be accounted for and are secured in the Revenue Control Unit.

**REBUTTAL:**

**The results of the audit clearly indicate that the individual receipt numbers for the prenumbered cash receipt books are not being periodically accounted for. The auditors were informed on July 11, 1995, by the staff of this bureau, that individual receipts are not being periodically accounted for. It is the responsibility of top management of the Bureau of Administrative Services to ensure that adequate internal control over the collection of cash is in place. Strict accountability over prenumbered cash receipts is an essential control over the cash receipting process. Based on the tone of the response to this section of the audit finding, it is recommended that top management of the Department of Health closely review the activities of this Bureau to satisfy themselves that proper controls over cash receipts are being carried out.**

f) Bureau of Administrative Services:

We do not concur. We feel that adequate reconciliation of detailed revenue records does occur in several ways. First, since we post to an on-line system, any discrepancy in dollar amounts would be caught immediately. In addition, the CD we are posting from has been stamped by the bank receiving the deposit, indicating that it was in balance. In addition, program and regional fiscal personnel are sent transaction information monthly to review and they should detect any discrepancies. Also, our own accountants review the allotment codes which they handle for close-out purposes, etc. and they would detect discrepancies. In addition, we now get a report sorted to the CD's which we handle in Fiscal Services as shown in STARS to allow us to reconcile for allotment code, cost center, transaction code, etc. keying errors.

**REBUTTAL:**

**During the audit, the Administrative Services Assistant II in the Bureau of Administrative Services informed the auditors on August 7, 1995, that the reconciliation procedures described above were not in place during the audit period. In addition, the auditor's observations revealed that there was not sufficient documentation available to determine if program and regional fiscal personnel were performing adequate monthly reviews. In addition it is not recommended that the bank be relied upon for assurance that the certification of deposit is accurate.**

Bureau of Health Services Administration:

West Tennessee Regional Office: We concur. The Regional Director has met with accounting staff to stress the importance of reconciling revenue records with STARS reports. Future records will be reconciled.

General Environmental Health: We concur. Every effort will be made to effect a monthly reconciliation of revenue records with amounts recorded on STARS.

g) Bureau of Manpower and Facilities:

We concur. Monthly reconciliations between Certificates of Deposit and STARS continue to be performed with discrepancies reported to the Division of Fiscal Services for correction. This process confirms that money was, in fact, deposited into the appropriate revenue accounts. Changes have been made to RBS and its administration which should improve reconciliation with STARS. We will continue to implement changes as situations arise which hinder this process. Unfortunately, the fact that this system is not a financial accounting system will continue to impede the complete reconciliation of revenue.

**Compliance Report Based on an Audit of the  
General-Purpose Financial Statements Performed in  
Accordance With *Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995. The Department of Health is part of the primary government of the State of Tennessee.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Health is the responsibility of the department's management. As part of obtaining reasonable assurance about whether the general-purpose financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass  
December 21, 1995  
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We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the Department of Health's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/mm