

DEPARTMENT OF PERSONNEL

FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994

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August 26, 1996

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Eleanor E. Yoakum, Commissioner
Department of Personnel
Second Floor, James K. Polk Building
505 Deaderick Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Department of Personnel for the years ended June 30, 1995, and June 30, 1994.

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
96/060

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit
Department of Personnel
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of Personnel's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDINGS

The Department Did Not Comply With its Direct Purchase Authority and Did Not Appropriately Reconcile Contracts*

The department did not properly utilize its direct purchase authorization (DPA) to purchase training and related supplies, nor did it comply with the DPA's provisions. Reconciliations of contract payments with accounting reports were not performed. As a result, purchases for ongoing services were made from the DPA, bids were not obtained, and DPA limits were exceeded (page 8).

The Department Did Not Comply With the Department of Finance and Administration's Policy On Reviewing Long Distance Telephone Calls

The department did not formulate a policy for monitoring telephone billings. No effort was made to obtain and review billings to determine their propriety (page 10).

* This finding is repeated from the prior audit.

"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

AUDIT REPORT
DEPARTMENT OF PERSONNEL
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	1
Post-Audit Authority	1
Objectives of the Audit	1
Scope of the Audit	1
<u>BACKGROUND AND ORGANIZATION</u>	2
Legislative History	2
Organization	2
<u>PRIOR AUDIT FINDINGS</u>	4
Repeated Audit Finding	4
<u>RESULTS OF THE AUDIT</u>	4
Audit Conclusions	4
Report on the Internal Control Structure	6
Findings and Recommendations	8
1. The department should comply with its direct purchase authorization and reconcile contract payments with STARS reports	8
2. The department did not comply with the Department of Finance and Administration's Policy on reviewing long distance telephone calls	10
Compliance Report	12

DEPARTMENT OF PERSONNEL
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the compliance audit of the Department of Personnel. 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’s internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants;
2. to test compliance with certain laws, regulations, contracts, or grants; and
3. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit is limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

In 1937, the state legislature enacted a structural reorganization of state government; at that time the Division of Personnel was created as part of the Department of Administration. Further reorganization in 1939 abolished the Department of Administration and established the Department of Personnel. At the same time, the Civil Service Commission was created to work with the department in establishing guidelines for administering a civil service examination.

ORGANIZATION OF THE DEPARTMENT

The department, one of the staff agencies of the executive branch, is under the Commissioner of Personnel. The department serves in an advisory capacity to the Governor, assisting him in formulating and executing all personnel policies and procedures for employees in state service and applicants for positions. It administers the provisions of the Civil Service Act, prescribes rules and regulations governing state employees, and strives to establish a modern and effective system of personnel management. It also coordinates the Governor's Affirmative Action Plan, which ensures that women and all minority persons are given an opportunity for equal employment in all state agencies in the executive branch. The department comprises the Divisions of Technical Services, Human Resources, and Executive Administration.

Technical Services Division - This division is responsible for maintaining state personnel records, administering civil service examinations, monitoring the civil service appointment process, and auditing the state payroll.

Human Resources Division - This division is responsible for coordinating and conducting training courses for state employees, implementing the state's affirmative action program, and supporting employee relations. It administers the state employee Sick Leave Bank, coordinates the state's Employee Suggestion Program, provides administrative support for the Civil Service Commission, and ensures compliance with provisions of the Americans with Disabilities Act.

Executive Administration Division - This division is responsible for the fiscal management of the department and for developing and maintaining technically sound personnel management programs to assist state managers and supervisors. This division is represented by the commissioner, who also serves as secretary to the Civil Service Commission.

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

The Department of Personnel is part of the general fund of the State of Tennessee and is responsible for the following divisions and allotment codes:

319.01	Division of Executive Administration
319.02	Division of Human Resources
319.03	Division of Technical Services
319.99	Sick Leave Bank

PRIOR AUDIT FINDINGS

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 Personnel filed its report with the Department of Audit on December 12, 1994. A follow-up of the prior audit finding was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding concerning reconciliations of contract payments with STARS reports. This finding has not been resolved and is repeated as part of another finding in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

We considered the internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no significant deficiencies.

Compliance with Laws and Regulations

With respect to the items tested, the Department of Personnel complied with the provisions of certain laws, regulations, contracts, or grants except for certain instances of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

Report on the Internal Control Structure

February 23, 1996

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

Dear Mr. Snodgrass:

We have applied procedures to test the Department of Personnel's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated February 23, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

We considered the department's internal control structure in order to determine our procedures for the purpose of testing the department's compliance with certain laws, regulations, contracts, or grants and not to provide assurance on the internal control structure.

The Department of Personnel'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. 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.

The Honorable W. R. Snodgrass
February 23, 1996
Page Two

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the department's ability to comply with laws, regulations, contracts, or grants.

We noted certain matters involving the internal control structure and its operation that we have reported to the Department of Personnel'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

FINDINGS AND RECOMMENDATIONS

THE DEPARTMENT SHOULD COMPLY WITH ITS DIRECT PURCHASE AUTHORIZATION AND RECONCILE CONTRACT PAYMENTS WITH STARS REPORTS

1. FINDING:

The Department of Personnel did not properly use the “Direct Purchase Authority for State In-Service Training” (DPA) or comply with its provisions. In addition, the department did not reconcile contract payments with the State of Tennessee Accounting and Reporting System (STARS) reports.

Through the DPA, the department purchased training services and supplies from one vendor for the Time Management classes. According to the *Official Compilation Rules and Regulations of the State of Tennessee*, Chapter 0620-3-3-.05(1)(a)1:

An authorization for direct purchase allows a state agency to contract for services for an individual program within specified limits, where it is not possible to determine in advance the specific services needed or to determine the cost of each service included.

The chapter also indicates that individual transactions should be relatively small and of little fiscal interest to the Department of Finance and Administration, Service Contract Office. The Time Management class is offered frequently, and approximately \$168,000 was spent on it in fiscal year 1995 and \$251,000 in fiscal year 1994. These purchases do not comply with the intent of the direct purchase authorization.

Also, the department did not obtain bids for the training services and related supplies provided by this vendor. The DPA states, “Each purchase shall, where practical, be made on a competitive bid basis, taking into consideration price, quality of work, and experience.” The department not only failed to obtain bids for this contract, but it failed to obtain bids for the purchase of supplies for its other in-house training classes. Failure to secure competitive bids may result in higher prices, and lower quality goods and services may be received.

In addition, the department failed to comply with the per day and annual expenditure limits placed on vendors by the DPA. The direct purchase authority states that “any single purchase from a vendor in an amount exceeding \$1,500.00 per day shall not be made under this authorization. . . . No single vendor shall receive more than \$25,000 per year under the terms of this contract.” Numerous instances were noted where payments exceeded the maximum per-day per-vendor amount. Also, for two vendors, the department made payments exceeding the annual limit per vendor of \$25,000.

The maximum was exceeded by \$60,000 for fiscal year 1995 and \$96,000 for fiscal year 1994.

As noted in the prior audit, reconciliations of contract payments with the State of Tennessee Accounting and Reporting System (STARS) reports are not performed because management does not maintain a list of payments made against each contract. Management concurred with the prior finding and stated that “the department has initiated a procedure by which all contract payments are listed and reconciled to STARS reports for fiscal year 1995.” A procedure was set up to reconcile all expenditures including contract payments. However, the database became too large for the EXCEL program to handle, and the procedure was discontinued in the spring of 1995. If the procedure had continued, the overpayments of the direct purchase authority limits would have been detected and could have been addressed.

RECOMMENDATION:

The director of training should ensure that the Direct Purchase Authority for State In-Service Training is used only for hiring short-term instructors. Personal service contracts should be established for hiring long-term instructors. Supplies should be purchased in accordance with the Department of General Services’ *Agency Purchasing Procedures Manual*. The director of administrative services and planning should ensure that reconciliations of contract payments with STARS are performed and documented.

MANAGEMENT’S COMMENT:

We concur. The department will make every effort to ensure future compliance with the provisions of our Direct Purchase Authority.

Prior to the audit, we recognized several problems associated with the Direct Purchase Authority process and have made significant changes. First, as noted in the finding, the purchase of time management training services exceeded spending limits of our Direct Purchase Authority. Beginning in fiscal year 1995-96, this service has been contracted out after completing a Request for Proposal (RFP) process.

Second, during the past two years, the department has made efforts to greatly reduce our reliance on Direct Purchase Authority purchases. This includes contracting out more training services through the request for proposal process and discontinuing our Direct Purchase Authority for training supplies. Currently, we are evaluating contracting alternatives for the remaining training services previously purchased through our Direct Purchase Authority.

Finally, in response to a previous audit finding this department expended a significant amount of energy towards developing a comprehensive system for all fiscal

transactions including invoices paid, payroll costs, interdepartmental billings, etc., for reconciliation purposes. It is our understanding that concerns regarding contract payments can be addressed with a listing of transactions rather than implementing a system of this magnitude. Consequently, we are currently maintaining a list of contract payments for tracking purposes and are evaluating the necessity of completing our comprehensive accounting system.

THE DEPARTMENT DID NOT COMPLY WITH THE DEPARTMENT OF
FINANCE AND ADMINISTRATION'S POLICY ON REVIEWING LONG
DISTANCE TELEPHONE CALLS

2. FINDING:

The department failed to formulate a policy regarding the monitoring of telephone calls as required by the Department of Finance and Administration's Policy Statement 17 - Long Distance Telephone Calls. In addition, the department did not request telephone bills from the Department of Finance and Administration. Thus, no effort was made to review the accuracy of telephone bills or the propriety of calls made. Section 17-02-203 of the policy states:

Each agency will develop a written plan to monitor telephone bills based on the need for long-distance telephone usage by that department. The plan should recognize that supervisors within the divisions of that agency should be aware of the types of phone calls that employees should be making, appropriate locations to which calls are placed, and the appropriate length of calls. Management should establish a system to identify unusual and inappropriate phone calls . . . and take whatever action management determines necessary.

Failure to properly monitor telephone bills could result in improper use of telephones or incorrect, unidentified charges.

RECOMMENDATION:

Management of the department should develop a policy in compliance with the Department of Finance and Administration's Policy Statement 17. Also, the director of administrative services and planning should request telephone bills from the Department of Finance and Administration and review their accuracy and the propriety of calls made.

MANAGEMENT'S COMMENT:

We concur. We are currently developing a new policy regarding telephone usage and are reviewing telephone bills on a monthly basis.

While we are taking action to address concerns, it should be noted that previous efforts to ensure the propriety of telephone usage were not cost effective. Previously, copies of the telephone bills were made for each division to review. Directors looked at the bills and involved other staff members on questionable calls. Employees were asked about these calls and at times the number was even redialed in an effort to determine propriety. In all, it is estimated that this effort required at least 50 hours per month. While the cost of this review varied depending on the individuals involved, it was certainly much more than the annual maximum of \$10 recouped by the department for unauthorized telephone calls.

We feel that a limited review will be more cost effective and still address the audit's concerns. Staff in the Division of Administrative Services and Planning will review long distance telephone bills for calls made frequently, after hours, or more than thirty minutes in length. Questionable calls will be forwarded to the appropriate division for consideration.

Compliance Report

February 23, 1996

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

Dear Mr. Snodgrass:

We have applied procedures to test the Department of Personnel's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994. We performed the procedures in accordance with generally accepted government auditing standards.

Compliance with laws, regulations, contracts, or grants applicable to the Department of Personnel is the responsibility of the department's management. Our objective 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 indicate that the Department of Personnel complied with the provisions referred to in the preceding paragraph, except for certain instances of noncompliance included in the Findings and Recommendations section of this report. We also noted other less significant instances of noncompliance that we have reported to the department'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

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