

**Department of Human Services**

**For the Year Ended  
June 30, 1996**

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Editor

July 10, 1997

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Linda B. Rudolph, Commissioner

Department of Human Services

400 Deaderick Street

Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Human Services for the year ended June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Human Services' compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Human Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Human Services' management in a separate letter.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/cr  
96/117

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Human Services**  
For the Year Ended June 30, 1996

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## AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1996, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, revenues, internal audit, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

### **Compliance With Child Support Enforcement Procedures Needs Improvement\***

The department did not always review child support orders at 36-month intervals, enforce orders for medical support, and adjust court orders to include medical support for older support orders. Also, one case file could not be located (page 4).

### **Noncompliance With Federal Regulations Concerning the Distribution of Child Support Payments\***

The department did not always remit intercepted IRS tax refunds in a timely manner. The payments were remitted to the caretaker late, reimbursed to the Aid to Families with Dependent Children agency late, or not processed at all (page 6).

## **ACCENT System Incapable of Providing Information Needed for Food Stamp Issuance Reports\***

The Automated Client Certification and Eligibility Network (ACCENT) system is not currently capable of providing the information necessary to prepare the FNS-259-Food Stamp Mail Issuance Report or to reconcile total issuances on the FNS-250-Food Coupon Accountability Report; therefore, the FNS-259 report must be prepared manually. In addition, the reports submitted to the federal government contained inaccurate information and mathematical and typographical errors (page 7).

\* This finding is repeated from two prior audits.

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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 Human Services**  
**For the Year Ended June 30, 1996**

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# Department of Human Services For the Year Ended June 30, 1996

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

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

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

### BACKGROUND

The mission of the Department of Human Services is to provide a quality system of human services to meet the changing needs of individuals and families in Tennessee. The department works to protect the vulnerable and enable its customers to achieve self-sufficiency and to improve their quality of life. In order to fulfill this mission, the department comprises four sections: Administrative Services, Social Services, Rehabilitation Services, and Family Assistance.

One of the department’s many responsibilities is to operate and determine eligibility for Tennessee’s major public assistance programs: Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid. The department strives to protect vulnerable children and adults, to preserve families, and to provide a wide range of other services designed to help children, adults, and their families. The agency helps Tennesseans with disabilities gain employment, live as independently as possible in the least restrictive environment, and receive timely and accurate decisions on their applications for disability or supplemental security income (SSI) benefits.

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



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## AUDIT SCOPE

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We have audited the Department of Human Services for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1996, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, revenues, internal audit, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds (Department of Finance and Administration Policy 20). The audit was conducted in accordance with generally accepted government auditing standards.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

Our audit of the Department of Human Services is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control structure and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Human Services is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act of 1984. The Single Audit Act requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal accounting and administrative control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Human Services were material to the CAFR and to the Single Audit Report: Food Stamps, Social Services Block Grant, Family Support Payments to States-Assistance Payments, Low-Income Home Energy Assistance Program, Social Security-Disability Insurance, Rehabilitation Services-Vocational Rehabilitation

Grants to States, Child Support Enforcement Program, Child and Adult Care Food Program, Foster Care–Title IV-E, Child Care and Development Block Grant, and Job Opportunities and Basic Skills.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these 11 major federal financial assistance programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions.

We have issued an unqualified opinion on the general-purpose financial statements of the State of Tennessee in our Independent Auditor’s Report dated December 20, 1996, which is included in the CAFR for the year ended June 30, 1996. The Tennessee Single Audit Report for the year ended June 30, 1996, will include our reports on the Schedule of Federal Financial Assistance, internal control structure, and compliance with laws and regulations.

We determined that the department did not comply with child support enforcement procedures, as discussed in finding 1; the department did not comply with federal regulations concerning the distribution of child support payments, as discussed in finding 2; and the ACCENT system is not capable of providing the information needed to prepare food stamp issuance reports, as discussed in finding 3.

**1. The department did not comply with child support enforcement procedures**

**Finding**

As noted in the two prior audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Enforcement Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations. In a review of active child support case files at the district attorneys’ general offices and private contractors’ offices, the following weaknesses were noted:

- a. One of 40 files selected for review (2.5%) could not be located by the Title IV-D personnel during the field work phase of the audit. Therefore, compliance with federal regulations could not be determined.
- b. Two of six files tested (33.3%) contained no documentation of review within a 36-month interval. Therefore, we could not determine whether notification of a review should have been sent to each parent at least 30 days before the review or whether each parent should have been notified of the results of the review. *Code of Federal Regulations*, Title 45, Section 303.8 (c)(4), states that the state must “review child

support orders at 36-month intervals after establishment of the order or the most recent review.”

- c. Three of 20 files tested (15%) contained no documentation that an order for medical support was enforced by the IV-D agency. *Code of Federal Regulations*, Title 45, Section 303.31(b)(7), states:

If health insurance is available to the absent parent at reasonable cost and has not been obtained at the time the order is entered, [the IV-D agency shall] take steps to enforce the health insurance coverage required by the support order. . .

- d. Two of four files tested (50%) contained no documentation that the court order had been adjusted for older support orders which did not have a provision for medical support. *Code of Federal Regulations*, Title 45, Section 303.8 (d)(3), states:

The need to provide for the child’s health care needs in the order, through health insurance or other means, must be an adequate basis under State law to petition for adjustment of an order to provide for the children’s health care needs, regardless of whether an adjustment in the amount of child support is necessary.

The failure to review child support orders at 36-month intervals, enforce orders for medical support, notify parents of reviews and results of reviews, and adjust court orders to include medical support in older support orders may deprive caretakers and dependent children of needed financial support or deprive the Aid to Families with Dependent Children program of reimbursement for entitlement payments.

Management concurred with the prior audit finding and stated that the new Tennessee Child Support Enforcement System (TCSES) has the ability to continually search for absent parents by interfacing with other data bases including the Federal Parent Location Service. TCSES also includes an alert system that can enable caseworkers to identify cases needing enforcement.

### **Recommendation**

The child support director should ensure that the district attorneys general and private contractors enforce medical support obligations. The director of child support should ensure that all applicable child support orders are reviewed at 36-month intervals and that parents are notified of reviews and results of reviews. The director of child support should ensure that the district attorneys general and private contractors petition the court or administrative authority to include medical support as required.

## Management's Comment

The Department concurs with finding 1.a., 1.b. and 1.d. We partially concur with finding 1.c. One of the three cited cases in finding 1.c. had no minor children who were subject to a medical support order at the time of the audit period. Custody of all minor children was given to the obligor in 1993, and the other child became 18 years of age in 1993 thus removing the obligor from any legal requirement to provide medical support. Consequently, there was no medical support order in existence which could be enforced.

The Tennessee Child Support Enforcement System (TCSES) now has all case files on the automated system and therefore there should be no future problem with unlocated files. TCSES will also alert the caseworker of the need for a review and possible modification of the court order which will prevent these cases from being overlooked. Medical support order establishment and enforcement will also improve as statewide implementation of all the TCSES functionality is completed. Additionally, we will provide additional training on medical support issues.

### **2. The department did not comply with federal regulations concerning the distribution of child support payments**

#### Finding

As noted in the two previous audits, the department did not comply with federal regulations concerning the timeliness of distribution of child support payments. The department concurred with the prior audit finding and stated that the new child support system, when fully implemented, would resolve these problems.

The *Code of Federal Regulations*, Title 45, Section 302.32(f)(2)(iv), requires that the collection of federal income tax refund offsets be sent to the caretaker or the AFDC agency, as appropriate, "within 30 calendar days of the date of initial receipt by the IV-D agency." Fourteen of 25 intercepted IRS tax refunds reviewed (56%) were remitted to the caretaker late, reimbursed to the AFDC agency late, or not processed at all. These payments were remitted from 12 to 83 days late.

Failure to distribute child support payments in a timely manner deprives caretakers and their children of needed child support. Furthermore, failure to reimburse the AFDC program in a timely manner may cause fewer clients to receive the AFDC benefits they are entitled to.

#### Recommendation

The child support director should comply with federal regulations for the child support enforcement program and ensure funds are distributed timely to caretakers and the AFDC program. Until the new child support system is fully implemented, the department should employ an effec-

tive alternative method to ensure the timely distribution of these funds. Management should assure themselves that the new system will address the timeliness of these distributions and will have any other features important to compliance with IV-D requirements. Management should require those charged with developing and implementing the system to provide specific commitments regarding the system's ability to address timely distribution and specific dates these applications will be operational. Management should carefully monitor the progress of this work and take appropriate action if the commitments are not met. Management should, in their continuing development of the system, also take steps to ensure adequate internal controls are and have been built into the system to ensure current, accurate data; compliance with applicable rules, regulations, and other criteria; and safeguarding of the integrity of the data, including controls that will enable management and staff to detect, in a timely manner, errors or irregularities relating to the IV-D program.

Management of the department should contact the Director of the Office for Information Resources regarding the prior and current problems with the system and seek advice about their resolution. They should also seek advice regarding the inclusion of effective internal controls in the Child Support System.

### **Management's Comment**

We concur. The new Tennessee Child Support Enforcement System (TCSES) will timely distribute child support collections in accordance with federal regulations for the child support enforcement program. This system is presently being implemented across the state and is designed to process distributions daily and in accordance with federal requirements. More than half the judicial districts are implemented and this system should be operational statewide by October 1, 1997. Both state staff and our contract partners have specific target functions and dates driving the process. Once the system is fully operational it will be reviewed and certified by the U.S. Office of Child Support Enforcement.

Changes to Child Support legislation will be ongoing as will other modifications to enhance the TCSES system.

The director of this project is from the Office of Information Resources and is, consequently, heavily involved in the development of this system.

### **3. The ACCENT system is not capable of providing the information needed to prepare food stamp issuance reports**

#### **Finding**

As noted in the prior two audits, procedures and systems used to prepare food stamp issuance reports are inadequate. Although the department has the Automated Client Certification and

Eligibility Network (ACCENT) system, a computer system designed to track food stamp and other benefit issuances, the system is not currently capable of providing the information necessary to prepare the FNS-259-Food Stamp Mail Issuance Report or to reconcile total issuances on the FNS-259 report with the FNS-250-Food Coupon Accountability Report. In addition, the food stamp issuance reports submitted to the federal government contain inaccurate information, including mathematical and typographical errors. Management concurred with the prior audit finding and stated, “We have assembled a group consisting of policy, systems analysts, fiscal account technicians, and direct mail issuance staff to do a thorough analysis of the ACCENT data and devise a plan to make necessary corrections.”

A review of the FNS-46-Food Stamp Issuance Reconciliation Reports, the FNS-250-Food Coupon Accountability Reports, and the FNS-259-Food Stamp Mail Issuance Reports revealed the following weaknesses:

- Because the ACCENT system cannot generate the information necessary to prepare the FNS-259 report, the report must be prepared manually. In addition, the “total mail issuance” amounts as shown on the FNS-46 report and on the FNS-250 report do not agree with the “total mail issuance” amount on the FNS-259 report. The *Code of Federal Regulations*, Title 7, Section 274.4(3)(ii), states, “The State agency shall verify the issuance [on the FNS-259 Report] by a comparison with issuance on the appropriate coupon issuer’s Form FNS-250.” The May 31, 1994, United States Department of Agriculture (USDA) Food and Nutrition Service (FNS) “Tennessee ACCENT FNS Post Implementation Review” Reporting Section, states:

[ACCENT] should be able to accurately generate, at a minimum, the district monthly figures for original mail issuances (no replacements), all mail replacements, all mail returns where a replacement has been made, and all mail returns where no replacement was made. State staff should be able to prepare the FNS-259 reports directly from ACCENT reports.

Since ACCENT cannot generate information related to total mail issuances, the system cannot be used to reconcile the total issuance amount reported to the USDA each month on the FNS-250 report.

- Food Stamp issuance reports prepared by the central office contained several discrepancies, including numerous mathematical and typographical errors. The “total value of issuance difference” on the FNS-250 report for July 1995 was overstated. Numerous errors were noted on the quarter ended September 30, 1995, FNS-259 report, including an overstatement of \$11,397 for “total mail issuance” and an overstatement of \$685 for “total replacements.” The “returns during current month” on the FNS-46 reports contained errors for the months of July and August 1995. Also, for the July and August 1995 FNS-46 reports, the direct access “value of authorized replacement(s) transacted” and the direct mail “value of authorized replacement(s) transacted” were miscalculated. Many of these errors appear to be a result of the cumbersome manual

process currently used to prepare food stamp reports, since ACCENT cannot provide all needed information.

The *Code of Federal Regulations*, Title 7, Section 274.4(1)(v), states, “The Form FNS-250 shall be reviewed by the State agency for accuracy, completeness and reasonableness. The state agency shall attest to the accuracy of these reports.” The federal government receives an inaccurate record of the state’s coupon assets when reports are not properly prepared.

### **Recommendation**

Management should assign staff to promptly and effectively modify the ACCENT system so it will generate an accurate record of food stamp issuance which can be used to prepare the FNS-259 report and to reconcile the total food stamp issuance. Specific staff should be given responsibility for ensuring accuracy and investigating any difference between the total issuance recorded on the FNS-46 report and that recorded on the FNS-250 report. The work should be adequately supervised, and the responsible employees should be held accountable for their reviews.

Management should review the nature, source, and extent of initial assurances that the ACCENT system would provide the requested information and perform the necessary computations. To the extent that those assurances have not been met, the department should take appropriate action and seek appropriate redress.

With regard to the modifications to be made, management should assure themselves that the modifications will meet their needs and should require those individuals charged with developing and implementing the modifications to provide specific commitments regarding the system’s ability to address these issues after modification and specific dates the modifications will be effective. Management should carefully monitor the progress of this work and take appropriate action if the commitments are not met.

Management of the department should contact the Director of the Office for Information Resources regarding the prior and current problems with this system and seek advice about their resolution.

### **Management’s Comment**

The program, systems, and fiscal staff have worked to isolate and correct the ACCENT logic necessary to prepare correct food stamp issuance reports. The modifications to ACCENT have been completed and the ACCENT production reports are now in balance with the manual reports of issuance. The reports for the most recent reporting period were correct.

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## **EXPENDITURES**

The objectives of our review of the expenditure controls and procedures were to determine whether

- expenditures for goods or services were identified and recorded correctly as to account, fund, budget category, period, and amount;
- expenditures for goods or services were authorized and in accordance with the budget and other regulations or requirements;
- payments were made in a timely manner;
- all payments for travel were paid in accordance with the Comprehensive Travel Regulations; and
- contracts were made in accordance with regulations and contract payments were in compliance with contract terms and purchasing guidelines.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over expenditures. We also tested a nonstatistical sample of expenditures. We had no findings related to expenditures.

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## **REVENUES**

The objectives of our review of revenue controls and procedures were to determine whether

- a reasonable degree of assurance was obtained as to the accuracy and validity of the revenue transactions;
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- revenue functions were adequately segregated and physical controls over cash were adequate;
- revenue or fees were billed or charged and recorded at the correct amount;
- petty cash or change funds were authorized by the Department of Finance and Administration; and

- departmental records were reconciled with Department of Finance and Administration reports.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over revenues. We also tested a nonstatistical sample of revenues. We had no findings related to revenues.

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## **INTERNAL AUDIT**

The objectives of our review of the internal audit controls and procedures were to determine whether

- internal auditors had the education, experience, and supervision necessary to complete their assignments;
- the internal audit unit was independent of the program functions of the department; and
- internal auditors prepared sufficient working papers to document their work.

We interviewed key department personnel to gain an understanding of the department's procedures and controls for conducting audits. We also reviewed auditor qualifications. We had no findings related to internal audit.

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## **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;

- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Federal Financial Assistance and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We also reviewed supporting documentation and tested nonstatistical samples of grant awards, revenue and expenditure transactions, drawdowns, and reports submitted to the federal government. We also reviewed payroll cost reallocations and the Schedule of Federal Financial Assistance. We had no findings related to Department of Finance and Administration Policy 20.

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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 Human Services filed its report with the Department of Audit on January 3, 1997. 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 Human Services has corrected previous audit findings concerning inadequate staffing of the internal audit section, the need for improvement of the accounting and management system for the Child Support Enforcement program, the need for improvement of the coordination of federal reporting responsibilities between the Department of Human Services and the Department of Children's Services, noncompliance with child protective services guidelines, noncompliance with adult protective services guidelines, noncompliance with federal regulations concerning effective review of subrecipient audits, noncompliance with Foster Care guidelines, inadequate controls over Foster Care petty cash accounts resulting in undetected payments to some foster parents, and inadequate procedures used to notify the Department of Children's Services of changes in Foster Care placements which caused some foster care parents to continue receiving payments after a child had been removed from the foster home.

## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning inadequate compliance with Child Support Enforcement procedures, noncompliance with federal regulations concerning the distribution of child support payments, and inability of the ACCENT system to provide the information needed to prepare food stamp issuance reports. These findings have not been resolved and are repeated in the applicable sections of this report.

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## **OBSERVATIONS AND COMMENTS**

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*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, 1996, the Department of Human Services filed its compliance report and implementation plan on June 13, 1996.

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

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for 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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## APPENDICES

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### DIVISIONS AND ALLOTMENT CODES

Department of Human Services divisions and allotment codes:

345.01	Division of Administration
345.13	Child Support
345.16	Field Operations
345.17	Special County Rentals
345.23	Aid to Dependent Children
345.30	Family Assistance
345.35	Disaster Relief Grants
345.40	Social Services Division
345.49	Community Services
345.70	Vocational Rehabilitation
345.71	Disability Determination



