

**Department of Employment Security**

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

**Arthur A. Hayes, Jr., CPA**

Director

**Charles K. Bridges, CPA**

Assistant Director

**Ronald E. Anderson, CPA**

Audit Manager

**Deborah Bonner**

**Linda Crosser**

**Michael Holland**

**Scott Price**

**Brett Proffitt**

Staff Auditors

**Dottie Hagood**

**Daniel V. Willis, CPA**

In-Charge Auditors

**Leslie Bethea**

Editor

June 2, 1997

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Hazel Albert, Acting Commissioner  
Department of Employment Security  
12th Floor, Davy Crockett Tower  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Employment Security 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 Employment Security's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Employment Security is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

Our audit resulted in no audit findings.

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

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/cr  
96/148

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Employment Security**  
For the Year Ended June 30, 1996

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## AUDIT SCOPE

We have audited the Department of Employment Security for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the State of Tennessee's 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 the operations of the department's satellite employer tax offices. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

The audit report contains no findings.

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

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# Department of Employment Security 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 Employment Security. 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 Employment Security is to enhance the quality of life in Tennessee by providing responsive job referrals to employers; productive client counseling services; an impartially administered, sound, and competitive unemployment insurance program; and reliable and relevant data to foster job development for Tennesseans.

In order to fulfill this mission, the department has four primary sections: Unemployment Insurance, Job Service, Administration, and Field Operations.

Unemployment Insurance is a joint federal and state program that provides benefits to unemployed workers who lose their jobs through no fault of their own. Unemployment Insurance benefits are paid from the Tennessee Unemployment Insurance Trust Fund. This fund is only used to pay benefits to Tennessee’s unemployed, and the fund is financed entirely by Tennessee employers.

Job Service provides counseling, training, and job development services to applicants to enhance their employability. Job Service also provides employers services such as job listings over the phone, pre-screening of applicants, pre-testing of clerical personnel, aptitude testing, on-site screening, and computerized job listings.

The department is also responsible for compiling Tennessee employment data. Information available includes employment and unemployment data by county; jobs by industry; wages of selected occupations for various regions of the state; future trends in occupations and industries; population and demographic data; per capita income data; and affirmative action data.

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 Employment Security for the period July 1, 1995, through June 30, 1996. Our audit scope included those areas material to the State of Tennessee's 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 the operations of the department's satellite employer tax offices. 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 Employment Security 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 Employment Security 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 Employment Security were material to the CAFR: the Unemployment Trust Fund, the Employment Service Program, and the Unemployment Insurance Program. We determined that the Employment Service Program and the Unemployment Insurance Program were material to the Single Audit Report.

To address the objectives of the audit of the CAFR, as they pertain to the Unemployment Trust Fund, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions, as appropriate. Our testwork on the Unemployment Trust Fund included tests of eligibility of unemployment recipients, tests of the calculation of unemployment taxes paid by employers, tests of receivable balances, confirmation of cash balances and interstate benefits receivable, and other analytical procedures to determine if the financial statements are fairly presented. Our work on the Unemployment Trust Fund was an integral part of the CAFR audit, and the financial statements of the trust and agency funds are presented in the CAFR.

To address the objectives of the audit of the CAFR and the Single Audit Report as they pertain to the Employment Service Program and the Unemployment Insurance Program, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions, as appropriate.

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.

As a result of our work, we had no findings related to the CAFR or Single Audit Report.

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## **EMPLOYER TAX OFFICES**

The objectives of our review of the controls and procedures of the Department of Employment Security's Employer Tax Offices were to determine whether

- controls over cash receipting are adequate,
- controls over property and equipment are adequate,
- controls over payroll and personnel are adequate,

- employee travel claims are accurate and in compliance with the *Comprehensive Travel Regulations*, and
- controls over employer taxes receivable are adequate and in compliance with departmental policy.

We interviewed key department personnel at the employer tax offices to gain an understanding of the department's procedures and controls over cash receipting, property and equipment, payroll and personnel, employee travel, and employer taxes. We also reviewed supporting documentation and tested nonstatistical samples of transactions.

As a result of our work, we had no findings related to the field office visits.

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## **EMPLOYER TAX LIABILITY**

Our review of the Department of Employment Security's controls over the employer tax computer system focused on determining whether the exact unemployment insurance tax liability of any Tennessee employer is readily determinable.

In the Department of Employment Security's ten prior audit reports, a finding noted that the employer tax system is incapable of calculating an employer's exact tax liability. Although management concurred with each of the ten prior findings, this year management has concluded that the costs of implementing a computer system capable of calculating the exact tax liabilities of all employers exceed the potential benefits of detecting tax underpayments. We have met with the department's management and reviewed their support for their current position on this matter.

As a result of our work, we concur with the department's position. Therefore, the finding has not been repeated in this report.

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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 Employment Security filed its report with the Department of Audit on November 19, 1996. 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 Employment Security has corrected previous audit findings concerning a comprehensive disaster recovery plan, controls over the board of review payroll, and the use allowance charged to federal grants.

The prior audit report also contained a finding concerning the inability of the computer system to calculate employer tax liability which has been noted in the ten prior audits beginning in 1986. Although management concurred with each of the ten prior findings, this year management has concluded that the costs of implementing a computer system capable of calculating the exact tax liabilities of all employers exceed the potential benefits of detecting tax underpayments. We have met with the department's management, reviewed their support for their current position on this matter, and concur with their position. Therefore, the finding has not been repeated in 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 Employment Security filed its compliance report and implementation plan on June 27, 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 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 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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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Department of Employment Security divisions and allotment codes:

Division of Administration	333.01
Deferred Revenue	333.03
Trust Fund	333.99



