

Department of Human Services

**For the Year Ended
June 30, 1997**

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June 15, 1998

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, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 control 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/sk
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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, 1997

AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, 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 internal audit, analytical procedures, management information systems, 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 auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Department Did Not Comply With Child Support Enforcement Procedures*

Not all resources were used to locate absent parents from at least January 31, 1996, until November 20, 1997. Furthermore, certain cases examined had no evidence that alleged fathers were contacted, that paternity was established within 90 days of locating the alleged father, and that location attempts were repeated properly. Several cases were not assigned the proper case-type classification in the computer system (page 4).

Federal Regulations Concerning the Distribution of Child Support Payments Are Not Always Complied With*

The department did not always remit intercepted IRS tax refunds in a timely manner. The refunds were remitted to the caretaker late, reimbursed to the Temporary Assistance to Needy Families agency late, or not processed at all (page 9).

The Department's Social Security Disability Financial Reporting Was Inadequate

The department's federal Social Security Disability Insurance reports contained numerous mathematical errors and misstatements. The accountant who prepared the reports apparently ignored certain key edit checks (page 10).

The Internal Audit Function Is Ineffective

The department's internal audit section does not effectively audit the department's operations. Although a Director of Internal Audit was hired in November 1995 and additional audit staff have been hired, the internal audit section performs audits and reviews on only one of the department's 11 major federal financial assistance programs (page 12).

Payments Were Improperly Made to Certain State Employees for Services Procured Through Direct Purchase Authority Contracts

The Department of Human Services improperly paid certain employees of other state agencies for services performed. Eighteen employees of other state agencies were identified as having questionable vendor relationships with the Department of Human Services. These employees were all paid under direct purchase authority (DPA) contracts for services such as medical services, child care services, attorney services, and vocational rehabilitation client services, in violation of rules governing the use of DPA contracts (page 14).

ACCENT System Security Is Not Adequate

The department does not have adequate application controls over user access to the Automated Client Certification and Eligibility Network (ACCENT) system. In a sample of terminated employees, 11 of 25 ACCENT user IDs tested (44%) were still listed as active within the ACCENT system and granted authority to modify case records (page 17).

* This finding is repeated from three prior audits.

"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

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Audit Report
Department of Human Services
For the Year Ended June 30, 1997

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Department of Human Services For the Year Ended June 30, 1997

INTRODUCTION

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 clients to achieve self-sufficiency and to improve their quality of life. The department carries out its responsibilities through four divisions: Family Assistance, Rehabilitation Services, Community and Field Services, and Administrative Services.

One of the department’s main responsibilities is to operate Tennessee’s major public assistance programs: Families First, Food Stamps, and Medicaid. The department also strives to protect vulnerable adults and provides for a wide range of other services designed to help low-income children, adults, and their families through an extensive contract services network. The agency also 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.

AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, 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 internal audit, analytical procedures, management information systems, 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 auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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 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, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, 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 control to provide reasonable assurance that it is managing its major federal award 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 (as a result of federal welfare

reform legislation, this program was replaced during the audit period with the Temporary Assistance to Needy Families [TANF] program), 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, Child Care and Development Block Grant, and Child Care and Development Fund.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these 11 major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. In addition, we performed computer-assisted analytical procedures to determine if the department complied with Child Support Enforcement Program federal regulations related to locating absent parents and to determine if the Automated Client Certification and Eligibility Network (ACCENT) system automatically moved households off of the Food Stamps program at the end of their certification periods unless they were recertified.

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 17, 1997, which is included in the CAFR for the year ended June 30, 1997. The Tennessee Single Audit Report for the year ended June 30, 1997, will include our reports on the schedule of expenditures of federal awards and on internal control 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 that the department’s social security disability financial reporting was inadequate, as discussed in finding 3. In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

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

Finding

As noted in the three 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 cases using the Tennessee Child Support Enforcement System (TCSES), the following weaknesses were noted:

- a. Three of five cases tested (60%) did not have evidence that the alleged father was contacted. *Code of Federal Regulations*, Title 45, Section 303.5 (a)(1), states that the

state must “provide an alleged father the opportunity to voluntarily acknowledge paternity.”

- b. Three of five cases tested (60%) did not have evidence that paternity was established by court order, acknowledgment, or other legal administrative process within 90 days of locating the father. *Code of Federal Regulations*, Title 45, Section 303.4 (d), states:

Within 90 calendar days of locating the alleged father or noncustodial parent, regardless of whether paternity has been established, establish an order for support or complete service of process necessary to commence proceedings to establish a support order and, if necessary, paternity (or document unsuccessful attempts to serve process, in accordance with the State's guidelines defining diligent efforts)

- c. Three of three cases tested (100%) did not have evidence that all feasible sources were used to attempt to locate the absent parent. *Code of Federal Regulations*, Title 45, Section 303.3 (b)(1), states:

The state must use appropriate location sources such as the Federal [Parent Locator Services] interstate location networks; local officials and employees administering public assistance, general assistance, medical assistance, food stamps and social services (whether such individuals are employed by the State or a political subdivision); relatives and friends of the absent parent; current or past employers; the local telephone company; the U.S. Postal Service; financial references; unions; fraternal organizations; and police, parole, and probation records if appropriate; and State agencies and departments, as authorized by State law, including those departments which maintain records of public assistance, wages and employment, unemployment insurance, income taxation, driver's licenses, vehicle registration, and criminal records.

- d. Three of three cases tested (100%) did not have evidence that the Federal Parent Locator Service (PLS) was used within 75 days of determining that locate functions were necessary. *Code of Federal Regulations*, Title 45, Section 303.3 (b) (3), states:

Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources, including transmitting appropriate cases to the Federal PLS, and ensure that location information is sufficient to take the next appropriate action in a case.

- e. Nine of nine cases tested (100%) did not have evidence that attempts to locate absent parents were repeated quarterly or immediately upon receipt of new information. *Code of Federal Regulations*, Title 45, Section 303.3 (b)(5), states that the IV-D agency must

Repeat location attempts in cases in which previous attempts to locate absent parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner.

- f. One of 17 cases tested (5.9%) did not have evidence of an attempt to establish support obligations. *Code of Federal Regulations*, Title 45, Section 303.4 (d), states:

Within 90 calendar days of locating the alleged father or noncustodial parent, regardless of whether paternity has been established, establish an order for support or complete service of process necessary to commence proceedings to establish a support order.

This error rate does not reflect the number of active cases for which a support order has not been established because the absent parent has not been located.

- g. Eleven of 40 cases tested (27.5%) were not classified correctly in TCSES:

- For one case, the unpaid balance of child support was classified as unassigned when it should have been classified as assigned.
- One case was classified as being in the establishment phase when, in fact, its support order had not been put into TCSES.
- For four cases, the case type in TCSES did not agree with information in the Automated Client Certification and Eligibility Network system.
- Five cases were classified as active open when they should have been classified as closed. One of these five cases was assigned three case numbers. Three of these five cases were opened erroneously during the system conversion process. One case was never closed although there was a court order on file directing that the case be closed.

Having the case type classified correctly in the system is essential for proper distribution of child support. Furthermore, when the active case population includes cases that are not valid or should no longer be open, a child support worker's attention can be diverted needlessly from truly active cases. When numerous case type errors exist, case workers can lose confidence in the reliability of the system.

- h. Two of 40 cases tested (5%) did not have recent support orders entered into TCSES. Failure to enter accurate support order information can cause a noncustodial parent to erroneously receive a refund from the state when child support is still due. Further, when support orders are not entered timely, arrearages cannot be calculated and child support payments cannot be credited to the noncustodial parent's account.

The failure to promptly attempt to locate absent parents, repeat location attempts as necessary, contact alleged fathers, establish paternity, establish support orders, classify cases correctly, close cases timely, and enter support orders into TCSES timely may deprive caretakers and dependent children of needed financial support or deprive the state's Temporary Assistance to Needy Families program of reimbursement of entitlement payments.

Because of the 100% error rates related to location functions, we utilized computer-assisted auditing techniques (CAATs) to analyze location attempts for the entire population of 232,884 individuals with a status of "active, not located." We concentrated on location activities we considered to be key for compliance with federal regulations such as the use of the Electronic Parent Locator Network, the Federal PLS, and the periodic cross-matches with state employment security agency databases.

No location attempts were recorded in TCSES for any of these crucial activities from at least January 31, 1996, until November 20, 1997, and the location function appears to have been disabled sometime during this period. Therefore, no key sources were used to locate absent parents, and quarterly location attempts, which at a minimum must include matching to state employment security records, were not done. When the location function was disabled in TCSES, the vast majority of judicial districts did not have access to the Federal PLS and could not perform the required search. Only the urban judicial districts, such as, Davidson, Knox, Hamilton, and Shelby, had direct access to the Federal PLS.

TCSES was programmed to perform location functions using automatic interfaces between various computer systems of different agencies. These functions should be automatically recorded on the locate diary by the system. However, as noted above, the location function in TCSES was apparently disabled. The judicial districts were apparently not notified of the need to perform manual location functions until July 1996. If manual location attempts were made, these attempts were not recorded in TCSES. *The Tennessee Child Support Enforcement System Policies and Procedures Manual*, Chapter 3, states, "The required documentation for the case will be maintained within the system by the use of various interfaces or by manually entering information by the worker. Such documentation will consist of . . . a record of local and state location efforts including the dates and the results."

Management concurred with the prior audit findings and stated:

One of the most important and valuable functions of the new Tennessee Child Support Enforcement System (TCSES) is the ability to conduct automated locate activities through interfaces with other data bases including the Federal Parent Locator Service. This functionality is statewide as of April 22, 1996, and ensures that non-located parents are continually matched against state and federal data bases.

However, the location function of TCSES was not operational at all during the audit period.

Recommendation

The Director of Child Support should ensure that all available sources are used to locate absent parents, and if attempts are unsuccessful, location attempts should be repeated at least quarterly or immediately upon receipt of new information. The director should ensure that alleged fathers are contacted and paternity is established within 90 days after locating the alleged father and that an attempt is made to establish the necessary support obligations. Further, the director should ensure that all cases on TCSES are classified correctly and that all support orders are entered into TCSES in a timely manner.

Management's Comment

We concur. The department's response to each noted weakness follows:

- 1a. An RFP (Request for Proposal) to contract efforts for voluntary acknowledgment of paternity has been released and proposals are due May 29, 1998, with the anticipation of having a contract in place effective July 1, 1998. The contract will support efforts to ensure information is available to all birthing institutions. All birthing institutions and local child support staff will be trained on these procedures. This should ensure that all alleged fathers have the opportunity to voluntarily acknowledge paternity.
- 1b. Information and policy training will emphasize the requirement to establish paternity within 90 days of location of the father.
- 1c. The importance of locate interfaces is recognized and will continue to be a major emphasis in the program. The state reactivated the locate interfaces as of November 24, 1997. Locate was activated by districts with the expectation that all districts will be activated by May 27, 1998.
- 1d. Once the district is activated for locate, cases will be sent to FPLS after the 61st day but before the 75th day if not located within the first 60 days of needing locate.
- 1e. With the activation of the locate function, locate will be attempted quarterly or when new information is made available.
- 1f. We will ensure policy enforces this requirement and will provide training quarterly or at annual child support conferences or through area coordinators or through all these means or otherwise as appropriate.
- 1g. We recognize the importance of correct classification in TCSES. TCSES will have a long-term case type change cleanup beginning June 1998. The cleanup effort is intended to correct case types on those cases that are incorrect and have not been manually corrected. The result should be appropriate case types and appropriate

assigned and unassigned arrears periods. In addition, we will complete training regarding the importance of timely entry of orders and promptly loading orders and taking actions per orders.

1h. This will be addressed through policy and training.

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

Finding

As noted in the three prior audit reports, the department did not comply with federal regulations concerning the timeliness of distribution of child support payments. The department concurred with the prior audit findings and stated that the new child support system (TCSES), when implemented, would resolve these problems. However, as discussed in finding one, the new child support system was not fully operational during the audit period.

The *Code of Federal Regulations*, Title 45, Section 302.32 (f)(2)(iv), requires that intercepted federal income tax refunds be sent to the caretaker or the Temporary Assistance to Needy Families (TANF) agency (formerly Aid to Families with Dependent Children), as appropriate, “within 30 calendar days of the date of initial receipt by the IV-D agency.” Twenty-one of 23 intercepted IRS tax refunds reviewed (91%) were remitted to the caretaker late, reimbursed to the TANF agency late, or not processed at all. These payments were remitted from three to 436 days late as of December 9, 1997. Many of the tax intercepts were processed using the old Child Support Management System (CSMS) or were processed manually because the new TCSES system was not yet able to process tax intercepts.

In addition, we contacted the local child support enforcement offices to determine whether or not the local office had records that the tax intercepts had taken place and whether the non-custodial parents’ arrearage balances had been properly adjusted to reflect the intercepted funds. Two of 23 district offices (9%) replied that they had no record that the intercepts had occurred, and 16 (70%) replied that the arrears had not been adjusted to reflect the intercepted funds. The *Code of Federal Regulations*, Title 45, Section 303.102 (g)(3)(iv), requires that “The State must credit amounts offset on individual payment records.”

Failure to distribute child support payments in a timely manner deprives caretakers and their children of needed child support. Furthermore, failure to reimburse the TANF program in a timely manner may cause fewer clients to receive the TANF benefits they are entitled to. Failure to account for funds received and to promptly update case records creates unreliable financial records. When tax intercepts are not properly and promptly recorded, the child support enforcement office may continue to pursue collection of debts that have already been satisfied, causing noncustodial parents considerable frustration and needlessly wasting scarce child support enforcement resources.

Recommendation

The Director of Child Support should comply with federal regulations for the child support enforcement program and ensure funds are distributed timely to caretakers and the TANF program. In addition, the Director of Child Support should ensure that case records are updated to reflect the changes in arrearage balances. Management should continue to work with the contractor to fully implement the TCSES system and ensure that all components of the system are operable. Until the new child support system is fully implemented, the department should employ an effective alternative method to ensure the timely distribution of these funds and to ensure that arrearage balances are updated promptly and accurately.

Management's Comment

We concur. TCSES became fully implemented statewide October 1, 1997, and the IRS process is functional. However, prior to full implementation, it was necessary to certify some IRS intercept cases from the Child Support Management System (CSMS) and some from the new TCSES system. Consequently, we have processing barriers to clear on TCSES for distribution of IRS intercept cases certified on CSMS. Case review and clean-up, plus confirmation of arrearage balances, must be performed prior to processing these cases. Unfortunately, this is a time-consuming process. However, future IRS intercept processes will be performed on TCSES and the distribution activities should meet the federal requirements. In future periods, system arrears balances on cases will be adjusted by TCSES to reflect intercepted amounts once the collection is processed.

3. The department's Social Security Disability financial reporting was inadequate

Finding

The department's federal Social Security Administration (SSA) Disability Insurance reports contained numerous mathematical errors and misstatements. Testwork on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) and the SSA/DDS Cost Effectiveness Measurement System (CEMS) Data Reporting Form revealed the following weaknesses:

- a. Five of 13 disbursement line items (38.5%) reported on Form SSA-4513 for the quarter ended December 31, 1996, were misstated. When the errors were brought to the accountant's attention, a revised SSA-4513 for quarter ended December 31, 1996, was prepared. However, the revised report did not reconcile with information on the State of Tennessee Accounting and Reporting System (STARS). A final revision was provided to the auditors on July 29, 1997.

- b. Six of 13 disbursement line items (46.2%) reported on Form SSA-4513 for the period ended September 30, 1996, were misstated, and the report's totals were not mathematically accurate.
- c. An unreconcilable difference of \$2,793,412 was noted between the total expenditures on the CEMS reports and the total claimed obligations on the SSA-4513 report for the federal fiscal year ended September 30, 1996.
- d. Two of nine disbursement line items (22.2%) reported on the Computation of Medical Assistance Only (MAO) Costs Attachment to SSA-4513 for the quarter ended December 31, 1996, were understated by \$2,077.29.
- e. The SSA/DDS Cost Effectiveness Measurement System Data Reporting Form for the quarter ended December 31, 1996, did not reconcile to STARS or to employee time and attendance reports. The Data Validation Form was used to prepare the CEMS report. However, the Data Validation Form contained 23 edit checks which questioned the validity and reasonableness of the numbers contained in the report; the accountant apparently ignored these edit checks when preparing the report. The regular pay amount on the CEMS report was understated by \$361,657, and overtime pay was understated by \$28,796 for a total understatement of \$390,453. Furthermore, hearing officers' regular pay and vocational specialists' regular pay were overstated by \$13,932 and \$597, respectively. Other costs and indirect costs were overstated by \$280,040.

The failure to accurately complete the Form SSA-4513 has resulted in misstated Social Security Administration costs.

Recommendation

The Director of Fiscal Services should ensure that adequate care is given to the preparation of Form SSA-4513 and the SSA/DDS Cost Effectiveness Measurement System Data Reporting Form, that staff preparing the forms are adequately supervised, and that adequate documentation is maintained.

Management's Comment

We concur. New procedures, including new supporting worksheets, have been developed and implemented for the preparation of the SSA-4513 Report of Obligations which includes reconciliation to STARS. The SSA-4513 is the report of expenditures of this grant program. Revised SSA-4513 reports have been submitted to the Social Security Administration (SSA).

The CEMS Data Reporting form is for gathering statistical information for SSA. The data for this report is produced by the DDS Versa Computer System. While we agree the report should reconcile to the SSA-4513 and STARS, it does not have an impact on the expenditures

reported for this program. Fiscal Services will work with Systems staff to identify why there are differences between STARS data and the CEMS data reporting form.

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;
- internal auditors prepared sufficient working papers to document their work; and
- the internal audit function is sufficient to meet the department's needs.

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 determined that the internal audit function was ineffective, as discussed in finding 4. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

4. The internal audit function is ineffective

Finding

The internal audit section does not effectively audit the department's operations. Although a Director of Internal Audit was hired in November 1995 and additional audit staff have been hired, the internal audit section performs audits and reviews on only one of the department's 11 major federal financial assistance programs. Although the Child and Adult Care Food Program (CACFP) received audit coverage, the Temporary Assistance to Needy Families, Family Support Payments to States—Assistance Payments, Food Stamps, Vocational Rehabilitation, Social Security Disability Insurance, Child Support Enforcement, Low Income Home Energy Assistance Program, Child Care Development Block Grant, Child Care Development Fund, and Social Services Block Grant programs received no internal audit coverage. Given the size of the Department of Human Services, the underlying nature of the department's programs, and the magnitude of the department's state and federal funding, the major federal programs should receive internal audit coverage.

The department's internal audit section was established to continually test the department's internal control structure. The Department of Human Services' *Administrative Manual*, page 587, states:

The internal audit function is a continuous independent management control and appraisal activity established within the Department to review administrative, fiscal, and program operations to determine for management (1) that assets are safeguarded and properly accounted for, (2) that adequate managerial and accounting controls exist and function properly, (3) that recommendations are made for appropriate improvements in controls and operations, and (4) that management's plans, policies, and procedures are carried out and executed effectively and efficiently.

Management of the department is responsible for establishing and maintaining internal controls. The internal audit function is a key management resource for ensuring that these controls are developed and maintained. However, because internal audit performs tests only on the Child and Adult Care Food Program, the department has not received the benefit of this key management resource.

Recommendation

The Director of Internal Audit should take immediate steps to meet the department's needs by increasing the section's coverage of the department's many complex programs. The internal audit staff should consider implementing continuous audit measures using computer assisted audit techniques such as those described in findings 1 and 5 of this report.

Management's Comment

We concur. Management of the department has worked to add two additional positions to meet the department's needs subsequent to the audit period. The section is looking at additional program areas, concentrating on known areas of findings as identified by Comptroller audits. For the audit period the section had only one staff person in addition to the director available to work on all program areas. The staff person and director were needed to work on the CACFP to conduct required audits. Three other Internal Audit positions are funded 100% by the Child and Adult Care Food Program (CACFP) and as such are prohibited from working in other program areas.

As internal audit achieves additional coverage of the department, we will explore the potential of utilizing and implementing computer-assisted audit software and technology, as well as the costs versus benefits of purchasing such specialized software.

ANALYTICAL PROCEDURES

The objectives of our analytical procedures were to identify unusual or unexpected transactions and/or relationships and to determine the propriety of these transactions or relationships. We obtained datasets from the State of Tennessee Accounting and Reporting System (STARS), the State Employee Information System (SEIS), the Automated Client Certification and Eligibility Network (ACCENT) system, the Tennessee Child Support Enforcement System (TCSES), and the Tennessee Child Care Management System (TCCMS). We utilized computer-assisted auditing techniques (CAATs) to perform a series of cross-matches between these datasets and to identify certain unusual transactions. We examined supporting documentation for these unusual transactions and interviewed department personnel as appropriate. We found that the department improperly paid certain state employees for services procured through direct purchase authority contracts, as discussed in finding 5. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

5. Payments were improperly made to certain state employees for services procured through direct purchase authority contracts

Finding

The Department of Human Services improperly paid certain employees of other state agencies for services performed. In a computerized cross-match performed by the auditors between State Employee Information System (SEIS) transactions for the state as a whole and the State of Tennessee Accounting and Reporting System (STARS) transactions for Department of Human Services allotment codes, 18 employees of other state agencies were identified as having questionable vendor relationships with the Department of Human Services. These employees were all paid under direct purchase authority (DPA) contracts for services such as medical services, child care services, attorney services, and vocational rehabilitation client services.

However, rules governing the use of DPA contracts prohibit state employees' participation in these contracts. *Rules of the Department of Finance and Administration*, Chapter 0620-3-3.05,2, states, "Any authorization for direct purchase must provide the following . . . (iii) That no services shall be purchased from state employees."

The state has established procedures to use when one state agency wants to use the services of an employee of another state agency. These procedures have controls to help ensure that working relationships between state employees and other state agencies are disclosed and approved and that compensation is subject to all applicable withholding taxes. *Rules of the Department of Finance and Administration*, Chapter 0620-3-2.01, states:

Employees of departments, agencies and institutions of the state government may perform for other state agencies services for which

compensation is expected **only** in the manner and under the conditions set forth below. . . . It is state policy that a full-time employee of an agency of the state government should devote his full working time to his position. An arrangement shall therefore not be approved if it will diminish the time such an employee will have available for the performance of his regular duties. [emphasis added]

This policy requires that a memorandum (commonly referred to as a dual-service agreement) be prepared and submitted for approval describing the services to be performed, the name and social security number of the state employee, and the compensation to be paid. The arrangement is required to be approved by the head of the employer agency and the head of the agency procuring services, and copies are to be filed with the Budget Division of the Department of Finance and Administration and with the Department of Personnel. The additional compensation is to be paid through the state's payroll system and is subject to all applicable withholding taxes.

A dual-service agreement was not on file for any of the 18 employees of other state agencies mentioned above. In most of these cases, department officials were not aware that the individuals paid for services on DPA contracts were state employees. In one instance, a program employee had knowledge of one individual's employment with another state agency but took no action to obtain a dual-service agreement between this vendor and the other state department.

Recommendation

The department should strengthen its vendor screening process to help ensure that the vendors the department pays are truly eligible to do business with the state. If it is necessary to use the services of employees of other state agencies, the department should adhere to Department of Finance and Administration rules concerning dual-service agreements. The Director of Internal Audit should perform periodic data matches, such as the one described in this finding, to detect any improper relationships in a more timely manner.

Management's Comment

We concur in part. Of the 18 vendors, ten were associated as child care vendors. DHS requested and received a waiver from the Department of Finance and Administration's Rules pertaining to contracts with employees for child care vendors. The waiver allows the department to have former employees and employees (during nonworking hours) to be child care vendors. The department has also undertaken other educational and awareness measures with Disability Determination Services consultative examiners to make them aware of possible conflicts. However, some of the relationships discovered are so nebulous it is unsure whether they could be detected in the future before occurrence. This would include the department paying court order attorney services related to a child in their protection, someone repairing specialized equipment, someone being paid to accompany a vocational rehabilitation client while in transit, and someone

performing medical evaluations while they are on a state regulatory board or teaching a class at a state institution of higher education. In instances such as these, the question of a possible conflict is difficult, if not impossible, to recognize. The department will work to adhere to F&A rules concerning dual service agreements in all instances.

The state vendor system is maintained by the Department of Finance and Administration, Division of Accounts. Our department only has access to payroll for DHS employees to do a crossmatch on, not all state payroll information. It was our understanding that the Division of Accounts routinely ran crossmatches to determine if state employees were being paid other than through a state payroll check since they have access to all departments' information. Any payroll crossmatch is only available to match Social Security numbers. If a vendor establishes a Federal Employer Identification Number (FEIN) to use on the vendor system, we are unsure if a crossmatch would catch this. We will explore opportunities with F&A to gain access to other departments' payroll information to allow us to perform periodic crossmatches, or have them run a periodic match for our department.

Auditor's Comment

The waiver mentioned by management in their comments was not requested and approved until after the completion of the audit field work and the matter had been brought to their attention by the auditors. The request was made February 10, 1998, and approved on March 4, 1998.

MANAGEMENT INFORMATION SYSTEMS

The objectives of our review of the ACCENT and TCSES systems were

- to determine if relevant policies and procedures have been placed in operation;
- to determine and document if computer resources are planned, managed, and used effectively;
- to determine and document if an adequate business recovery plan has been implemented; and
- to determine if user access to the ACCENT and TCSES systems is adequately controlled.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over the ACCENT and TCSES systems. We obtained and reviewed the department's three-year information systems plan and other departmental policies. We obtained datasets of the ACCENT and TCSES security tables and performed computer assisted analytical

procedures concerning the levels of access provided to certain users. We also cross-matched the ACCENT and TCSES security tables to the SEIS system to determine if the levels of access granted to users were consistent with their job titles and to determine if terminated employees' access to these systems was promptly revoked. We found that the department did not have adequate application controls over the ACCENT system, as discussed in finding 6. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

6. ACCENT system security is not adequate

Finding

The department does not have adequate application controls over user access to the Automated Client Certification and Eligibility Network (ACCENT) system. In a sample of terminated employees, 11 of 25 ACCENT user IDs tested (44%) were still listed as active within the ACCENT system and granted authority to modify case records. Good security practices require that terminated employees' system privileges be promptly revoked.

The failure to revoke terminated employees' ACCENT privileges increases the possibility that sensitive case information could be inappropriately modified, that falsified cases could be established, and that welfare benefits could be paid to ineligible individuals.

Recommendation

The Director of Information Systems should take immediate steps to ensure that all ACCENT access privileges are promptly revoked for terminated employees.

Management's Comment

We concur that weaknesses exist in controls over ACCENT user access. The system security process involves DHS Field Management and Family Assistance Policy, in addition to DHS Information Systems operations. Internal audit has been asked to review and make recommendations in this area to enhance controls. Upon their review we will determine what changes may be necessary and appropriate.

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 award 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 schedule of expenditures of federal awards 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; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

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 Human Services filed its report with the Department of Audit on December 16, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Human Services has corrected the previous audit finding concerning the inability of the ACCENT system to provide the information needed to prepare food stamp issuance reports.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate compliance with child support enforcement procedures and noncompliance with federal regulations concerning the distribution of child support payments. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

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, 1997, the Department of Human Services filed its compliance report and implementation plan on June 30, 1997.

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.

APPENDIX

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
345.49	Community Services
345.70	Vocational Rehabilitation
345.71	Disability Determination

