

Department of Employment Security

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

Arthur A. Hayes, Jr., CPA
Director

Charles K. Bridges, CPA
Assistant Director

Ronald E. Anderson, CPA
Audit Manager

Karna Logan
In-Charge Auditor

Nathan Abbott
Robert Burns, CPA
Kevin Harney
Scott Price
Staff Auditors

Leslie Bethea
Editor

April 9, 1998

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, 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 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 internal control and for complying with applicable laws and regulations.

Our audit resulted in no findings; however, we have reported other less significant matters involving the department's internal control 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/rm
97/119

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, 1997

AUDIT SCOPE

We have audited the Department of Employment Security 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 payroll, interstate benefits receivable, employer tax receivable, benefit overpayment receivable, revenue, unemployment tax, unemployment benefits, 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 FINDING

The audit report contains no finding

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

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

Audit Report
Department of Employment Security
For the Year Ended June 30, 1997

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	2
Areas Related to Tennessee's Comprehensive Annual Financial Report and Single Audit Report	2
Payroll	4
Interstate Benefits Receivable	5
Employer Tax Receivable	5
Benefit Overpayment Receivable	6
Revenue	6
Unemployment Tax	6
Unemployment Benefits	7
Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues"	7
PRIOR AUDIT FINDINGS	8

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
OBSERVATIONS AND COMMENTS	8
Title VI of the Civil Rights Act of 1964	8
APPENDIX	9
Divisions and Allotment Codes	9
Unemployment Insurance Claims Paid	10
Unemployment Rates	11

Department of Employment Security 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 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, Employment 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.

Employment Service provides counseling, training, and job development services to applicants to enhance their employability. Employment 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.

AUDIT SCOPE

We have audited the Department of Employment Security 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 payroll, interstate benefits receivable, employer tax receivable, benefit overpayment receivable, revenue, unemployment tax, unemployment benefits, 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 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 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, 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 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.

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.

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

PAYROLL

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

- payroll (wages, salaries, and benefits) disbursements are made only for work authorized and performed;

- payroll is computed using rates and other factors in accordance with contracts and relevant laws and regulations; and
- payroll and related liabilities are recorded correctly regarding amount and period and are distributed properly by account, fund, and budget category.

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

INTERSTATE BENEFITS RECEIVABLE

The objectives of our review of the interstate benefits receivable controls and procedures were to determine whether

- revenue amounts uncollected presented as receivable at the end of the fiscal period are valid, and
- procedures to collect past due accounts are adequate.

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

EMPLOYER TAX RECEIVABLE

The objectives of our review of the employer tax receivable controls and procedures were to determine whether

- revenue amounts uncollected presented as receivable at the end of the fiscal period are valid,
- procedures to collect past due accounts are adequate, and
- an adequate allowance for uncollectible accounts has been established.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over employer tax receivable. We tested a sample of receivables. We also tested receivables of \$25,000 or greater. We had no findings related to employer tax receivable.

BENEFIT OVERPAYMENT RECEIVABLE

The objectives of our review of the benefit overpayment receivable controls and procedures were to determine whether

- revenue amounts uncollected presented as receivable at the end of the fiscal period are valid,
- procedures to collect past due accounts are adequate, and
- an adequate allowance for uncollectible accounts has been established.

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

REVENUE

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

- revenues that are available and measurable in the fiscal period were recorded,
- revenues or fees were billed or charged and recorded at the correct amount, and
- revenues are properly classified by fund type in the financial statements and related disclosures are adequate.

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

UNEMPLOYMENT TAX

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

- the department had complied with applicable provisions of *Tennessee Code Annotated*,
- employer taxes were properly computed and transferred to the trust fund,

- refunds issued to employers were reasonable and adequately supported, and
- penalties and interest were charged when applicable and accounted for properly.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over unemployment tax. We also tested samples of taxpayer accounts and refunds to taxpayers. We had no findings related to unemployment tax.

UNEMPLOYMENT BENEFITS

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

- the department had complied with applicable provisions of *Tennessee Code Annotated*,
- benefit amounts were properly computed, and
- only eligible recipients received benefits.

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

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.

The Department of Employment Security has received an exception to Department of Finance and Administration Policy 20. Due to the unique nature of the department's grants, a cost-accounting system based on time distribution is used. STARS does not have the ability to distribute indirect costs to programs based on the percentage of time charged to each program.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit 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 Employment Security filed its compliance report and implementation plan on March 9, 1998.

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 Employment Security divisions and allotment codes:

331.01	Division of Administration
333.03	Deferred Revenue
333.09	Trust Fund

