

Tennessee Human Rights Commission

**For the Year Ended
June 30, 1998**

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John G. Morgan
Comptroller

October 7, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Julius Sloss, Executive Director
Tennessee Human Rights Commission
530 Church Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Human Rights Commission for the year ended June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing 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 Tennessee Human Rights Commission's compliance with the provisions of laws, regulations, and contracts significant to the audit. Management of the Tennessee Human Rights Commission 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 commission'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 commission's internal controls and/or instances of noncompliance to the Tennessee Human Rights Commission's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/klm
99/077

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Human Rights Commission
For the Year Ended June 30, 1998

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission for the period July 1, 1997, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, payroll and personnel, equipment, lost or stolen items, conflict of interest, compliance with the Financial Integrity Act, 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Commission's Revenue Procedures and Controls Were Inadequate

One employee performed all cash-receipting functions (page 3).

Controls Over Equipment Were Inadequate

Twenty-nine percent of the commission's equipment items tested were not tagged, were not in the location indicated on the property listing, and/or were described incorrectly on property records (page 6).

The Commission Failed to Comply with the Financial Integrity Act*

The commission did not submit on time the 1997 report of its review of internal accounting and administrative controls and did not maintain adequate supporting documentation for the review (page 8).

*This finding is repeated from the prior audit.

The Commission Did Not Record Its Federal Funding in Accordance with State Policy, Nor Did It Request an Exception to This Policy

The commission did not utilize the State of Tennessee Accounting and Reporting System (STARS) grant accounting system to track Federal funds, as required by Policy 20 (page 10).

Alleged Employee Fraud Was Not Reported to the Comptroller of the Treasury

The commission did not notify the Comptroller's office about possible employee fraud and the ultimate resolution of management's investigation (page 12).

Conflict of Interest Policies and Compliance Need Improvement

There is no formal, written conflict of interest policy for commissioners and the current policy adopted for commission staff does not require disclosure of all potential conflicts (page 14).

"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
Tennessee Human Rights Commission
For the Year Ended June 30, 1998

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Tennessee Human Rights Commission For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Human Rights Commission. 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

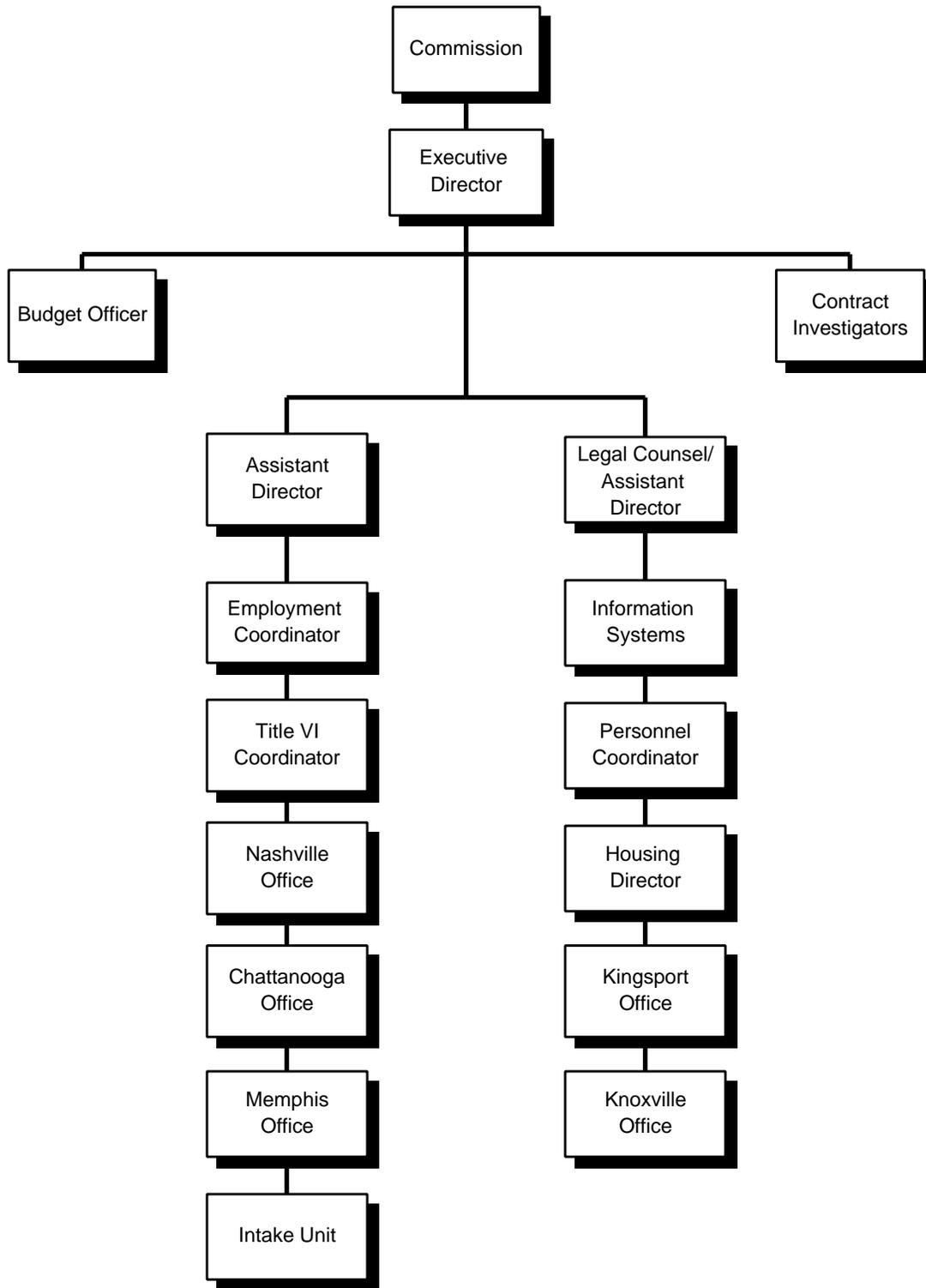
The mission of the Tennessee Human Rights Commission is to promote civil rights in Tennessee. The commission is charged to encourage, promote, and develop fair and equal treatment of and opportunity for all Tennesseans regardless of race, color, creed, sex, or national origin; to assist local governmental agencies with human relations; to report yearly to the Governor and the legislature the commission’s activities; and to adopt rules and regulations to govern the proceedings of the commission.

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

AUDIT SCOPE

We have audited the Tennessee Human Rights Commission for the period July 1, 1997, through June 30, 1998. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures,

Tennessee Human Rights Commission



payroll and personnel, equipment, lost or stolen items, conflict of interest, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

Our objectives in reviewing the revenue controls and procedures were to determine whether

- transactions were properly supported,
- revenue or fees were billed or charged and recorded at the correct amount,
- records were reconciled with Department of Finance and Administration reports, and
- proper support for journal vouchers was maintained.

We interviewed key commission personnel to gain an understanding of the procedures for and controls over billing and receiving funds. We also reviewed supporting documentation and tested a sample of revenue transactions. Type "J" journal vouchers were examined for compliance with the Department of Finance and Administration's Policy Statement 18. We determined that controls over revenue were inadequate, as noted in finding 1. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

1. The commission's revenue procedures and controls were inadequate

Finding

A review of the commission's revenue procedures and related control structure revealed the following inadequacies:

- a. Cash receipt functions were not properly segregated. The Budget/Personnel Coordinator was performing the following incompatible duties: opening the mail, preparing the deposit, making the deposit, and posting to the accounting records.

No mail log or cash receipt was prepared, checks were not endorsed immediately upon receipt, and there was no documented reconciliation of the deposit.

- b. Reconciliations between commission revenue records and the State of Tennessee Accounting and Reporting System (STARS) were not performed.

There were no compensating controls noted for either of these conditions. Proper segregation of duties helps to ensure that funds and assets are not lost, stolen, misappropriated, or recorded improperly. The duties of authorizing transactions, recording transactions, and maintaining assets should be separated whenever possible. Prompt reconciliation of the commission's internal accounting records with transactions in STARS and maintaining documentation of the reconciliation helps to ensure that the information in the centralized accounting system is accurate. Inadequate segregation of duties and the failure to reconcile revenue records with STARS significantly increases the potential for errors and fraud to occur and go undetected.

Recommendation

Revenue procedures and controls should be improved. Duties within the cash receipts functions should be adequately segregated. When the mail is opened, a mail log or cash receipt should be prepared by an employee who is independent of the other cash receipt functions. Checks should be restrictively endorsed immediately. Cash receipts and deposits should be reconciled. The duties of preparing the deposit, making the deposit, reconciling cash receipts to the deposit, and posting to the accounting records should be separated whenever possible. When duties cannot be segregated because of limited staff, other compensating controls, such as a documented managerial review, should be in place. Also, revenue records should be promptly reconciled with STARS and adequately documented.

Management's Comment

We concur. We have added an additional staff person in this area in order to implement the auditor's recommendations.

EXPENDITURES

Our objectives in reviewing expenditure transactions were to determine whether

- transactions were properly supported,
- expenditures were for goods and services that had been authorized and received,

- payments were made in a timely manner,
- agency records were reconciled with the state’s accounting system, and
- travel payments were made in accordance with the Comprehensive Travel Regulations.

We discussed disbursement, contract, and reconciliation controls and procedures with commission personnel to gain an understanding of the procedures for these areas. We reviewed supporting documentation and tested a sample of transactions to determine whether the commission complied with the state’s purchasing rules and regulations. Type “J” journal vouchers were examined for compliance with the Department of Finance and Administration’s Policy Statement 18. We had no findings related to expenditures; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

PAYROLL AND PERSONNEL

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

- payroll deductions were properly supported and approved;
- payroll disbursements (wages, salaries, and benefits) were made only for work authorized and performed; and
- time sheets and leave slips were properly approved and signed by employees.

We interviewed key commission employees to gain an understanding of procedures and controls over leave-slip and time-sheet approval. We reviewed supporting documentation for these controls and procedures. A sample of personnel files was tested for proper approval of salary rates, leave slips, and time sheets. Deductions were reviewed to ensure employees authorized them. In addition, analytical procedures were performed on payroll balances to determine whether any unusual variances existed. We had no findings related to payroll and personnel; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EQUIPMENT

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

- property and equipment on the property listing represented a complete and valid listing of the capitalized assets purchased and physically on hand; and
- all sold, abandoned, damaged, or obsolete fixed assets had been removed from the property listing.

We interviewed key commission personnel to gain an understanding of procedures and controls for safeguarding and accounting for equipment and reviewed these controls and procedures. In addition, we tested samples of equipment items to determine if the actual items agreed by description, tag number, serial number, and location with the equipment listing. We determined that controls over equipment were inadequate, as noted in finding 2. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

2. Controls over equipment were inadequate

Finding

The Tennessee Human Rights Commission should strengthen controls over equipment. For 7 of 29 equipment items tested (29%), pertinent data could not be verified as recorded in the Property of the State of Tennessee (POST) system. This was due to the budget/personnel coordinator not tagging the equipment when received and/or prior to sending the equipment to the field offices. Equipment tags were also placed on the wrong pieces of equipment and the description as shown on the property listing was not correct. Also, equipment was transferred between locations, and the proper transfer documentation was not completed. It also appeared that inventory was not current because of the problems noted above.

The Department of General Services' *POST User Manual*, Appendix C—Physical Inventory Procedures, states:

“Each state agency must take an annual physical inventory prior to the close of the fiscal year ... The property officer physically takes an inventory of all property that is in the POST system ... In the event that items cannot be located, certain criteria must be adhered to and with no exceptions.”

Proper year-end inventory procedures, along with accurate and complete property records are necessary to safeguard and account for all state equipment in the department's custody.

Recommendation

The Budget/Personnel Coordinator should perform a complete annual physical inventory prior to the close of each fiscal year. In the event that items cannot be located, proper procedures should be followed as established by the Department of General Services.

The Budget/Personnel Coordinator should ensure that all equipment items are accurately recorded on the Department of General Services' property listing and that transfer documentation is completed and POST is updated each time equipment changes location. All equipment should be tagged and properly identified in the property records.

Management's Comment

We concur. The property officer has conducted a full inventory of all regional and central offices of the agency. This inventory had previously been scheduled as per policy prior to the scheduled audit. Staff has been advised to comply with the policy.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate annually its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year, through December 31, 1997. In 1998, the law was amended, and now the *Guidelines for the Evaluation of Internal Accounting and Administrative Controls* (December 1998) requires that

the head of each executive agency, beginning with June 30, 1999, and each year thereafter, submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the commissioner of Finance and Administration and the Comptroller of the Treasury. Every fourth year, beginning with December 31, 1999, the head of each executive agency must transmit a report on internal control.

The objectives of our review of the Tennessee Human Rights Commission's compliance with the Financial Integrity Act were to determine whether

- the commission's reports were filed in compliance with the Financial Integrity Act,
- documentation to support the commission's evaluation was properly maintained,

- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act report was not submitted on time, support for the report was inadequate, and the letter acknowledging the commission's responsibility for the internal control system was not submitted timely, as discussed in finding 3.

3. The commission failed to comply with the Financial Integrity Act

Finding

As noted in a prior audit finding, the Tennessee Human Rights Commission failed to submit an evaluation of its internal accounting and administrative controls by the December 31 deadline. According to the Financial Integrity Act of 1983, a report should have been filed by December 31, 1997, but was not submitted until April 4, 1998, three months past the deadline. Also as noted in the prior audit, there was no assurance that reliable data was obtained and fairly disclosed in the report, since supporting documentation was unavailable.

In their response to the prior finding, management stated that they would submit a corrected report. However, the reports for calendar years 1996 and 1995, which were cited in the prior finding, were not corrected and resubmitted. Also, there were no significant improvements noted in the evaluation that was due December 31, 1997.

Prior to March 25, 1998, *Tennessee Code Annotated (TCA)*, Section 9-18-104, stated, "By December 31 of each year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under the preceding section, prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report ..." Furthermore, the Department of Finance and Administration's *Guidelines for the Evaluation of Internal Accounting and Administrative Controls*, May 1986, states:

Adequate written documentation is to be maintained. In particular, documentation shall be maintained for activities conducted in connection with vulnerability assessments, internal control reviews and follow-up actions in order to provide a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached.

This law was still in effect for the December 1997 report.

The Financial Integrity Act was modified on March 25, 1998. The amended law changes the commission's future reporting responsibilities. *TCA*, Section 9-18-104 (a) now states,

By June 30, 1999, and each year after, the head of each executive agency ... shall submit to the commissioner of finance and administration and the comptroller of the treasury a letter acknowledging responsibility for maintaining the internal control system of the agency.

TCA, Section 9-18-104 (b)(1) further states, "By December 31, 1999, and December 31 of every fourth year thereafter, the head of each executive agency shall ... prepare and submit a report..." This report on the commission's internal control system must be prepared in accordance with guidelines established by the Commissioner of Finance and Administration, in consultation with the Comptroller of the Treasury.

The commission was also not in compliance with the amended law at June 30, 1999. A letter acknowledging the commission's responsibility for the internal control system was due to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999. This letter was not received by the Comptroller of the Treasury until July 12, 1999.

Recommendation

The commission should comply with the provisions of the Financial Integrity Act. On June 30 of each year, the executive director should submit a letter to the Commissioner of Finance and Administration and the Comptroller of the Treasury acknowledging responsibility for maintaining the Tennessee Human Rights Commission's internal control system. By December 31, 1999, and every fourth year thereafter, the executive director should prepare and submit an evaluation of the commission's internal accounting and administrative controls. This evaluation should be in compliance with the guidelines established by the Commissioner of Finance and Administration and the Comptroller of the Treasury. Written documentation should be maintained for activities conducted in connection with internal accounting and administrative control evaluations.

Management's Comment

We concur. The Financial Integrity Report for fiscal years 1995, 1996, and 1997 are not available because key personnel i.e. the former Executive Director, the former EEOC compliance officer, the former HUD compliance officer, and the former budget officer have left the agency.

Per TCA 9-18-104(a) the agency is to submit a letter by June 30, 1999, and each June thereafter, and a detailed report by December 31, 1999. We have completed both.

**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 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 procedures and controls used and determined that the commission is not in compliance with Policy 20, as discussed in finding 4.

4. The commission did not record its federal funding in accordance with State policy, nor did it request an exception to this policy

Finding

The Tennessee Human Rights Commission did not comply with the Department of Finance and Administration’s Policy Statement 20, “Recording of Federal Grant Expenditures and Revenues.” The Department of Finance and Administration issued Policy 20 in response to the Cash Management Improvement Act of 1990. Although no errors were noted, the policy is

designed to establish uniform procedures to “track the exchange of funds between the State and Federal government.”

The Tennessee Human Rights Commission received a combined total of approximately \$600,589 in federal funding from the U.S. Department of Housing and Urban Development (HUD) and the U.S. Equal Employment Opportunity Commission (EEOC) during the fiscal year ending June 30, 1998. Section 20-01-201 of Policy 20 states, “All State ... commissions ... which receive all or a portion of their funding from the Federal government are hereby required to comply with this policy.” Section 20-04-101 further states, “All exceptions to this policy shall be submitted in writing by the primary departmental fiscal officer to the Chief of the Division of Accounts, Department of Finance and Administration, for approval.” The Human Rights Commission has not received such an approval; therefore the following weaknesses were noted:

- a. All federal funds were not recorded on the State of Tennessee Accounting and Reporting System (STARS) grant control table when awarded. Policy 20, Section 20-02-201 states, “Agencies receiving Federal funds must load their grants onto the STARS Grant Control Table.” The policy further states in Section 20-02-202, “All grant awards must be recorded at the time that grant award notification is received from the Federal government.”
- b. Federal drawdowns were not made utilizing the STARS grant control module (report 832). According to Section 20-02204, “Federal drawdowns must be made utilizing the STARS grant module (available on STARS report number 832).”
- c. The STARS Grant Activity Report (report 830) was not used as the basis for preparing the Schedule of Federal Financial Assistance. According to Section 20-02-206, “Agencies must utilize the STARS Grant Activity Schedule (report number 830) as the basis for preparing the Schedule of Federal [Financial] Assistance required by the Single Audit Act of 1984.”
- d. Financial reports submitted to the federal government were not prepared using the STARS grant module. According to Section 20-02-207, “Status reports to the Federal government must be prepared utilizing the STARS grants module.”
- e. The internal accounting system used to account for federal grant expenditures and revenues was not reconciled with the STARS grant module.

Recommendation

The executive director of the Tennessee Human Rights Commission should comply with the Department of Finance and Administration’s Policy Statement 20. To claim an exception from Policy 20, the executive director should submit the exception to the chief of the Division of

Accounts, Department of Finance and Administration, for approval. Although no errors were noted, if approval is not granted, the executive director should implement the procedures to fully utilize STARS to record receipt and expenditure of all federal funds.

Management's Comment

We concur. The commission will adhere to Policy 20, Section 20-02-201.

REPORTING OF LOST OR STOLEN ITEMS

The objectives of our review of the reporting of lost or stolen items were to determine whether

- the commission promptly notified the Comptroller of the Treasury about any lost or stolen items, and
- the commission promptly notified the Comptroller about any incidences of possible fraud or illegal acts.

We interviewed key commission personnel to gain an understanding of the commission's procedures regarding the reporting of lost or stolen items. We determined that these matters were not being promptly reported to the Comptroller of the Treasury, as discussed in finding 5.

5. Alleged employee fraud was not reported to the Comptroller of the Treasury

Finding

The Tennessee Human Rights Commission did not notify the Comptroller of the Treasury about possible employee fraud and the ultimate resolution of management's investigation. Section 8-19-501, *Tennessee Code Annotated*, states,

It is the duty of any official of any agency of the state having knowledge of shortages of money of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.

An individual working in the Knoxville Human Rights Commission office was involved in possible fraudulent activities during the period from January 27, 1998, to May 27, 1998. The alleged offenses include the purchase of office supplies and other items for personal use and the

falsification of a staffing service time sheet while working as a full-time temporary employee of the Knoxville Human Rights Commission office. According to commission records, the dollar value of the alleged fraud was approximately \$590. A vendor receipt shows that the state was able to recover approximately \$245.

This individual began working as a full-time temporary employee for the commission through a staffing service. While working as a temporary employee of the Tennessee Human Rights Commission in Knoxville, this individual was hired as a full-time permanent secretary by a Department of Employment Security office in Nashville. She apparently intended to relocate to Nashville; however, she worked less than three days for the Nashville Department of Employment Security office and returned to Knoxville. Upon failure to return to work in Nashville, she was terminated for job abandonment. While being paid as an employee of a Nashville Department of Employment Security office for less than three days, this individual was also being paid as a full-time temporary employee of the Tennessee Human Rights Commission's Knoxville office by falsifying her staffing service time sheet. On May 1, 1998, the commission hired this individual as a full-time permanent secretary in the Knoxville Office. After the unauthorized purchases and the falsification of the staffing services time records were investigated, this employee was permitted to resign on August 7, 1998.

The Comptroller's office was not notified of the initiation or ultimate resolution of this investigation. The purpose of the statutory requirement to notify the Comptroller is to ensure a thorough investigation and an appropriate resolution in the best interest of the state. Also, prior to payment, all expenditures need to be reviewed for propriety. After the Comptroller's office reviewed this matter, it was referred to the District Attorney General of the 6th Judicial District (Knox County).

Recommendation

The executive director should promptly submit to the Comptroller of the Treasury any initial indications of employee fraud. No personnel actions should be initiated before notice to the Comptroller's office. The executive director should also ensure that the fiscal office carefully reviews all expenditures and investigates any unusual or questionable purchases.

Management's Comment

We concur. New reconciliation procedures, which had recently been implemented in the Accounts section, detected an abuse of items purchased in the Knoxville regional office and a falsification of time sheets. The employee involved was given an opportunity to resign their position or be terminated. The person chose to resign. The Executive Director was unaware of TCA 8-19-501, which requires these incidents be reported to the Comptroller of the Treasury. If

any misconduct of this nature occurs in the future, it will be promptly reported to the Comptroller's office.

CONFLICT OF INTEREST

The objectives of our review of conflict of interest policies and procedures were to determine whether

- the commission has established comprehensive written conflict of interest policies and procedures for commissioners and employees, and
- signed conflict of interest statements were on file.

We interviewed key commission personnel to gain an understanding of policies and procedures regarding conflict of interest. A sample of personnel records were tested for signed conflict of interest statements. Our review also included following up on a conflict of interest finding reported in a recent performance audit dated June 1999. We determined that both the conflict of interest policy and compliance with the policy were inadequate, as discussed in finding 6.

6. Conflict of interest policy and compliance need improvement

Finding

The commission has not developed comprehensive conflict of interest policies, and compliance with existing policies is not adequate. There is no formal, written conflict of interest policy for commissioners, and the current policy adopted for commission staff does not require disclosure of all potential conflicts. For example, one employee of the commission is related to a former EEOC employee who worked with the commission during the audit period, completing cases pursuant to its EEOC contract. Furthermore, the executive director is an elected official of a local government. These types of disclosures are not addressed under the current policy. Also, 7 of the 11 employees tested (64%) had not submitted signed conflict of interest statements.

Conflict of interest disclosures are designed to ensure that the public's interest is protected and that employees who make key decisions about investigations and business operations are independent from the other involved parties. Disclosure of financial interest, prior and current employment, employment of immediate family members, and other matters that may influence employees' decisions help to ensure that they are acting on the state's behalf. Also, disclosure of such matters would assist the commission and its employees in determining when they should recuse themselves from commission business activities.

Recommendation

The commission should develop a formal, written conflict of interest policy for commissioners. The current policy for staff should be expanded to disclose all potential conflicts of interest. Policies should require commissioners and employees to sign and update, as necessary, an annual disclosure form. Moreover, policies should address direct or indirect interests in any business, government, or organization that the commission contracts with or deals with during the course of its activities. The policies should address ownership interest in a corporation or firm that deals with the commission; prior or current employment of the individual or an immediate family member; and other matters that may influence, or that may have the appearance of influencing, decisions. The executive director should ensure that comprehensive conflict of interest statements are received from commissioners and employees in a timely manner. Commission members and commission employees should recuse themselves from commission business as warranted.

Management's Comment

We concur. A comprehensive conflict of interest policy has been developed for staff, especially those in the investigative positions. The board of commissioners will obey the law. If there is an appearance of conflict for a member, the apparent conflict will be deferred to the full commission for its consideration.

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 Tennessee Human Rights Commission filed its report with the Department of Audit on June 15, 1999. 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 commission has corrected the previous audit finding concerning the need to improve controls over disbursements.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning the commission's failure to prepare and submit its Financial Integrity report in accordance with state law. This finding has not been resolved and is repeated in the applicable section 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 ended June 30, 1998, the Tennessee Human Rights Commission filed its compliance report and implementation plan on July 1, 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.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates on which 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.

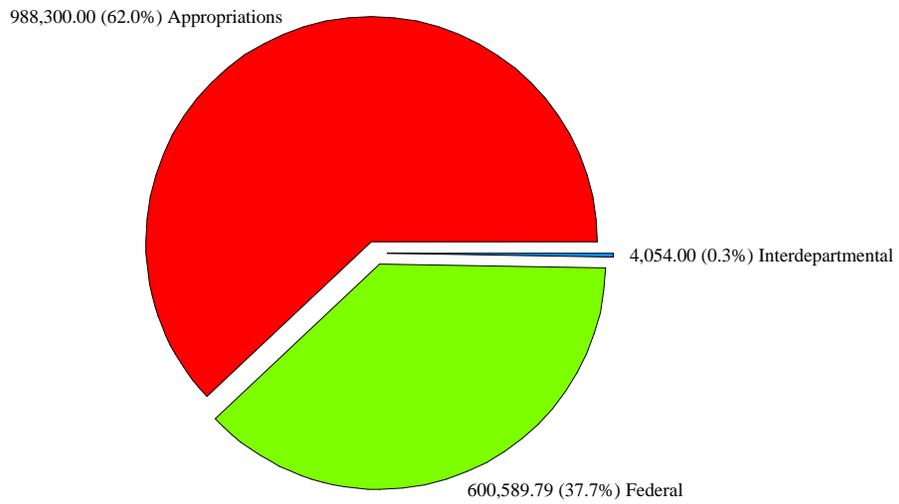
APPENDIX

ALLOTMENT CODE

The Tennessee Human Rights Commission allotment code is 316.04.

Tennessee Human Rights Commission Funding Sources

Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Tennessee Human Rights Commission