TENNESSEE

Single Audit Report
For the Year Ended June 30, 1998

Comptroller of the Treasury
Department of Audit
Division of State Audit

Tennessee

Single Audit Report

June 30, 1998

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

July 15, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the Single Audit Report of the State of Tennessee for the year ended June 30, 1998. This report contains the Schedule of Expenditures of Federal Awards and the Results of the Audit. Consideration of internal control and tests of compliance for major federal programs were conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and disclosed certain deficiencies, which are included in the Results of the Audit section of this report.

Management has responded to the audit findings, and the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 1998, and our report thereon have been issued under separate cover.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/ra

State of Tennessee
Single Audit Report
For the Year Ended June 30, 1998

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State of Tennessee
Single Audit Report
For the Year Ended June 30, 1998

INTRODUCTION

BACKGROUND

For the year ended June 30, 1998 the Single Audit Report for the State of Tennessee, required by the Single Audit Act and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented in two volumes. The *Comprehensive Annual Financial Report (CAFR)* for the year ended June 30, 1998, and the auditor's report thereon dated January 25, 1999, have been issued under separate cover. The Single Audit Report, the second volume, contains the auditor's reports on compliance and internal control over financial reporting and on compliance and internal control over compliance with requirements applicable to major federal programs and on the Schedule of Expenditures of Federal Awards. The Single Audit Report also contains the Schedule of Findings and Questioned Costs (including summary of auditor's results, financial statement findings, and federal award findings and questioned costs) and the Schedule of Expenditures of Federal Awards. Except for findings related to the *CAFR*, findings applicable to more than one major program or cluster are presented for each respective program.

POST-AUDIT AUTHORITY

This is a report on the single audit of the State of Tennessee. 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.

The Single Audit Act and Office of Management and Budget Circular A-133 establish audit requirements for state and local governments. They provide for independent audits of financial operations, including compliance with certain provisions of federal laws and regulations. The requirements were established to ensure that audits are organization-wide rather than grant-by-grant.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to test compliance with laws, regulations, contracts, and grants which could have a direct and material effect on the general-purpose financial statements;

2. to consider the state's internal control to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements;

3. to determine the fairness of the presentation of the state's general-purpose financial statements;

4. to determine compliance with requirements applicable to major federal programs;

5. to test controls to evaluate the effectiveness of the design and operation of internal control policies and procedures applicable to major federal programs;

6. to determine the fairness of the presentation of the Schedule of Expenditures of Federal Awards, in all material respects, in relation to the state's general-purpose financial statements taken as a whole; and

7. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit is limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards.

The Schedule of Expenditures of Federal Awards and Results of the Audit sections are presented in accordance with the provisions of Office of Management and Budget Circular (OMB) A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Compliance and Internal Control Over Financial Reporting

As a part of obtaining reasonable assurance about whether the state's general-purpose financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, in planning and performing our audit, we considered the internal control over financial reporting in order to determine our auditing procedures for expressing an opinion on the general-purpose financial statements. Reportable conditions, along with recommendations and management's responses, are detailed in Section II - Financial Statement Findings.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the state's general-purpose financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State of Tennessee's disclosures with respect to the year 2000 issue. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, these general-purpose financial statements present fairly, in all material respects, the financial position and the results of operations and cash flows of proprietary and nonexpendable trust funds as of and for the year ended June 30, 1998. The independent auditor's report dated January 25, 1999, is included in the *Comprehensive Annual Financial Report*, which has been issued under a separate cover.

Compliance and Internal Controls Over Major Federal Programs and Fairness of Presentation of Schedule of Expenditures of Federal Awards

In our opinion, except for items 98-DHS-01 and 98-DHS-02 regarding Special Tests and Provisions of the Child Support Enforcement program and items 98-DCS-07 and 98-DCS-08 regarding Equipment and Real Property Management of the Foster Care—Title IV-E program in Section III - Federal Award Findings and Questioned Costs, the state complied in all material respects with requirements applicable to each of its major federal programs for the year ended June 30, 1998.

Reportable conditions and noncompliance that are required to be reported in accordance with OMB Circular A-133, along with recommendations and management's responses, are also detailed in Section III - Federal Award Findings and Questioned Costs. Items 98-DCS-02, 98-DCS-04 through 98-DCS-11, 98-DHS-01, 98-DHS-02, 98-TDH-02, 98-TDH-03, and 98-TDH-05 are considered material weaknesses in internal controls used in administering a major federal program.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly presented in all material respects in relation to the state's general-purpose financial statements taken as a whole.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

January 25, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the State of Tennessee's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management in separate letters.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal

The Honorable John G. Morgan
Page Two

control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Tennessee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-CAFR-01 through 98-CAFR-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, we would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management in separate letters.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ra

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COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

May 14, 1999
except for the Schedule of Expenditures of Federal Awards,
as to which the date is January 25, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

Compliance

We have audited the compliance of the State of Tennessee with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The State of Tennessee's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on the State of Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted government auditing standards; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Tennessee's compliance with those requirements.

As described in items 98-DHS-01 and 98-DHS-02 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Special Tests and Provisions that are applicable to its Child Support Enforcement program. Furthermore, as described in items 98-DCS-07 and 98-DCS-08 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Foster CareTitle IV-E program. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 98-DCS-01 through 98-DCS-03, 98-DCS-05, 98-DCS-06, 98-DCS-09, 98-DCS-11, 98-DES-01, 98-DOE-01, through 98-DOE-03, 98-TDH-03, 98-TDH-08 through 98-TDH-10, 98-TDH-17, 98-TDH-22, 98-TSU-01, 98-TSU-02, and 98-UTH-02.

Internal Control Over Compliance

The management of the State of Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Tennessee's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-APS-01, 98-CAFR-01 through 98-CAFR-08, 98-CAFR-10 through 98-CAFR-12, 98-DCS-01 through 98-DCS-13, 98-DHS-01, 98-DHS-02, 98-DOT-01, 98-TDH-01 through 98-TDH-25, 98-TSU-01, 98-TSU-02, 98-UTH-01, 98-UTK-01, and 98-UTK-02 .

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 98-DCS-02, 98-DCS-04 through 98-DCS-11, 98-DHS-01, 98-DHS-02, 98-TDH-02, 98-TDH-03, and 98-TDH-05 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ra

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified because of the Year 2000 Issue, the effects of which will not be fully determinable until the year 2000 and thereafter

Internal control over financial reporting:

• Material weaknesses identified?	___ yes _x_ no
• Reportable conditions identified that are not considered to be material weaknesses?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal control over major programs:

• Material weaknesses identified?	_x_ yes ___ no
• Reportable conditions identified that are not considered to be material weaknesses?	_x_ yes ___ none reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs, except for Child Support Enforcement and Foster Care—Title IV-E, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_x_ yes ___ no

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998
(continued)

Section I—Summary of Auditor's Results

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
-	Food Stamp Cluster
-	Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
-	Section 8 Cluster
14.228	Community Development Block Grants/State's Program
-	Employment Service Cluster
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance – Workers
-	Training Cluster
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
83.544	Public Assistance Grants
-	Student Financial Aid Programs Cluster
84.010	Title I Grants to Local Educational Agencies
-	Special Education Cluster
84.048	Vocational Education - Basic Grants to States
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
-	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security - Disability Insurance
-	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $15,942,429.89

Auditee qualified as low-risk auditee? ____ yes _x_ no

Section II—Financial Statement Findings

Finding Number	98-CAFR-01
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Improved controls over program changes in the Tennessee On-line Purchasing System are needed

Finding

Controls over program and design changes pertaining to the Tennessee On-Line Purchasing System (TOPS) are not adequate. Requests for program and design changes are not being properly approved, a backlog of program change requests exists, changes are being made directly to the TOPS database through the Order Fix program instead of using properly authorized transactions, and system documentation has not been kept current.

Proper approvals for TOPS program and design change requests are not always obtained by Department of General Services Information Systems and Purchasing personnel. Nine of 13 program and design change requests tested (69%) were not properly approved by General Services' personnel. Without proper approval, programs could be changed inappropriately.

Program and design changes are not being made in a timely manner by General Services' personnel. The TOPS "Tracking Open Reports By Priority" report lists all open program change requests by priority on a scale of A to E with A being the highest priority. As of July 16, 1998, the report consisted of 147 open program change requests—32 A requests, 55 B requests, 36 C requests, 15 D requests, and 9 E requests. Several of the requests with a priority of C or lower appeared to be higher priority than indicated on the list, due to the potential effect of the problem on the financial statements and the effect on the efficiency and effectiveness of TOPS. Seventy-one of the 147 program and design change requests (48%) have remained incomplete for at least two years, with one request remaining incomplete for eight years. This backlog caused by the volume of requests and time constraints increases the risk that vital requests will not be given appropriate consideration due to being pushed down in priority. This large number of outstanding program changes indicates that many areas in the TOPS application are not working properly. Although in many cases compensating controls exist to ensure proper recording in TOPS, the system should be designed to operate effectively.

In addition, problems that are occurring within the TOPS application are being corrected using a program known as Order Fix. Order Fix makes changes directly to the TOPS database. Instead of using program and design changes to correct existing problems within the system, OIR programmers are allowed access to fix the problem directly in the database with Order Fix. Currently, Order Fix is being used on a nightly basis to correct system problems. In some instances, the TOPS information does not interface properly with STARS and the purchase order will not process any further until the problem is fixed. When the purchase order does not process Order Fix is used to correct the problem so the transaction can complete its processing. However, corrections to system data outside normal system controls should not be made as a normal course of daily business as this opens up the data to a greater risk of loss or misuse.

Any system will have occasional problems that require the use of utilities but nightly use of such utilities is not good management practice. Even though division staff maintain paper documentation of the Order Fix changes, the system has no history or record of these changes resulting in the lack of an audit trail. Without an audit trail, the integrity of the data is compromised and the history of transactions is not complete. If the system was designed and functioning properly, use of Order Fix would not be necessary on a nightly basis. Making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

Furthermore, TOPS system documentation has not been kept current. Data entry screen documentation, logic flow descriptions, and flowcharts have not been updated in three years. Current and complete system documentation should be maintained as part of the department's business resumption plan. Without complete, accurate, and up-to-date system documentation it would be difficult to re-install a system should the need arise. Complete system documentation is also necessary to provide an overview of the system to those involved in strategic planning, training of other employees, or making changes to the system.

Recommendation

The Director of Information Systems should ensure proper controls over TOPS program and design changes are implemented and followed. Program change forms should be signed by user management to designate their review and approval and should also be approved by information system and programming management.

The current backlog of program and design change requests should be reviewed and re-evaluated for priority and these requests should be completed as soon as possible. Future program and design change requests should also be completed timely on the basis of priority.

As the system problems are corrected, the use of Order Fix should be minimized and if possible, eventually eliminated. As problems arise in the future, causes of the problems should be identified quickly and TOPS should be corrected through program and design changes or other appropriate means which leave an audit trail.

Management's Comment

We concur. The information systems division will ensure that analysts testing changes also sign the request form, not just the appropriate Purchasing division approver. As of the finding date, the backlog of open requests was especially large because the entire Information Systems division analysts staff as well as all the OIR Systems Development Support (SDS) programmers supporting TOPS had been totally dedicated to the Y2K conversion project. During that project which lasted over one year, all other requests, except true emergencies were put on hold to avoid having to make program changes in two places and to minimize introducing more problems that were not related to the conversion itself.

Now that the Y2K changes have been implemented and the system has been converted to a relational database (DB2) on the Customer Information Computer System (CICS), it is the intention of the Purchasing and Information Systems divisions to review the outstanding problem reports, determine whether each is still a valid report, and reprioritize what is open. Some of these will have been corrected by virtue of changes made during the conversion. It should be noted that a number of existing program problems were identified during the conversion project testing and new problem reports were opened, thus increasing the backlog. The department plans to spend the months of May and June 1999 resolving these problem reports and postponing design change requests. This will allow the department to give particular attention to problems introduced during the conversion and problems that cause data to be corrupted or erroneously updated.

Currently the most common use of the Order Fix program is to correct an order amount that does not match the total of the order lines. While a problem report has been written up on this issue and while it has been known for some time, this occurs occasionally when a user makes an order line change during the course of creating an order. However, analysts have been unable to successfully identify the series of steps the user takes to cause the normal program logic to be bypassed. By placing priority on such problem reports which cause data errors as noted above, it will be possible for the department to devote the analyst resources needed to identify and correct these problems more quickly and thus reduce the use of the Order Fix program. However, because new program changes bear the potential of introducing new data errors, there will always be a need for a utility to repair such data. Therefore, the Information Systems division will implement a tracking document to note the requests for data fixes. This document will supplement the current system output which shows date, document number and fields changed.

About four years ago, the State discussed requiring the vendor to update the old documentation to be consistent with what was then being installed. The number of changes back logged would have made this cost prohibitive. Therefore, the Information Systems division has relied on a combination of the original documentation and the written history of design changes, as well as the programmers' code notes, to provide the complete documentation of the system. This is clearly not the best solution for a business resumption plan; however, the nature of disaster recovery in the mainframe environment would make re-installing the system unnecessary.

Finding Number	98-CAFR-02
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Documentation to support access to Tennessee On-line Purchasing System was not on file

Finding

As noted in the prior audit, proper authorization for departmental users' access to the Tennessee On-line Purchasing System (TOPS) was not on file at the Department of General Services. Management concurred with the prior finding and stated:

> A completed and signed TOPS security form is required to set up TOPS security for an individual. Forms that are not signed are returned to the sender for signature. It has been our policy to accept security forms only when completely filled out. If a portion is missing, it is our policy to phone the individual who authorized the form and get the needed information from them verbally. The TOPS Security Officer will write this information on the form in the proper field. All security forms are being filed by the department in alphabetical order.

However, problems were still noted in the current audit with the maintenance of security requests, approvals by General Services' management, and inconsistencies with the access requested. Although each state department determines the access its staff needs to perform their jobs and files authorization forms for this access, General Services' staff are responsible for ensuring that the forms are complete and access is established in TOPS. In many instances, however, access authorization forms were either not obtained, not consistent with actual access, or not properly approved by General Services' management. The signature authorization forms for three of 38 TOPS users were missing. For the remaining 35 applicable forms tested:

- Six (17%) did not have the type of access to TOPS the department had requested on the authorization form, and
- Three (8.6%) were not properly approved by General Services' management.

Failure to obtain and document written authorization for user access means no authority exists for these users' access to the system. Failure to assign the access requested and approved allows some individuals unauthorized access to unintended parts of the system.

Recommendation

The Commissioner should determine why the department's policies referred to in their prior year comments have not been followed. The Department of General Services Purchasing Division should ensure complete access authorization requests for all TOPS users are obtained and maintained. Users should not be given access to TOPS until their departments submit properly approved authorization forms. The requests should specify the type of access approved by user management and the user should be given only the type of access requested. Also, General Services' management should properly approve all security request forms for the TOPS system.

Management's Comment

We concur. The Purchasing division is in the process of reviewing all TOPS security request forms on file for accuracy, to make sure that access requests match what is provided in the system, and to ensure that a Purchasing division representative initials each form to document approval and completion. If access is detected on the system for which we do not have a completed security form, the user ID is inactivated until an approved completed form is received. When forms are found that do not match what is on the system or are incomplete, the individual is contacted and asked to submit a new security request form with their director's approval. Completed security request forms are being filed alphabetically by department in a secured file. We plan to have this review completed by October 30, 1999.

Finding Number	98-CAFR-03
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Controls over the Property of the State of Tennessee system need to be improved

Finding

As noted in the prior audit, administration of the Property of the State of Tennessee (POST) system does not provide assurance that assets are accurately recorded. The problems noted in the prior audit that were not corrected include retirement batches, security administration, asset values, and object codes.

Retirement of Equipment

Management concurred with the prior finding and stated that errors noted in processing retirement of equipment are now turned over to Information Systems Management (ISM) to be handled through Multitrac and OIR utilities to correct the problems. Sometimes retirements (i.e. deletions) do not post correctly and halt processing. To restart processing, the Department of General Services makes changes directly to the POST database through Utility Services On-line (USO). This utility overwrites data and leaves no audit trail such as the date of the change, its purpose, and the name of the employee making the change.

Although, management stated in the prior year finding that the use of USO was turned over to Information Systems Management (ISM), the property manager is still using USO to make corrections. The Property Manager would not need this type of access if the system functioned correctly.

In addition, eight of 100 retirements (8%) were not properly documented. Five of these did not have the approval of the department head on the retirement request, two did not contain a police or security report, and one did not contain the correct location and vendor name. Allowing assets to be retired without obtaining appropriate approval or all necessary information creates a potential for misappropriation of assets that could go undetected.

Security Administration

Security authorization forms are used by the department to authorize and document each user's approved access to POST. However, four of 60 users (6.7%) did not have the type of POST access requested. Failure to assign the access requested and approved allows some individuals unauthorized access to parts of the system.

Asset Values and Object Codes

Management concurred with the prior finding and admitted that some transfer transactions were not processing correctly, causing object code fields to be dropped. Management also stated that problems with object codes, funds, and costs were corrected. Actions taken by management were ineffective since problems were again noted with asset values and object codes in the current audit.

Records on POST were incomplete, invalid, and inaccurate:

- Thirty-nine records had object codes other than "16" (equipment) and "099" (sensitive items). These items totaled $26,203.37. There are no edits in POST to prevent incorrect object codes from being used.
- Three hundred eighty-nine records had blank object codes. These items totaled $375,036.36.
- Three hundred twenty-one items had a cost less than $1.00 because they were not recorded at fair market value. General Services' personnel do not investigate items with low costs to determine whether the items need to be recorded on the POST system, and if so, whether they are recorded at the appropriate amount. Items costing $1,000 or more and sensitive items as defined by General Services should be recorded on POST.
- POST did not have complete location information for six of 40 equipment expenditures tested (15%).

Inaccurate object codes, costs, and location information affect the accuracy of the state's fixed asset records.

Recommendation

The Commissioner should determine why management did not make the changes they stated would be made in their prior year comments. The POST system should be modified so that retirement transactions record correctly, thereby eliminating the need to use USO to correct data. Any use of USO should only be performed by Information Systems Management (ISM) and documented to include date of change, purpose of the change, name of employee making the change, and approval. The Property Manager's USO use should be eliminated. In addition, all appropriate approvals and information should be obtained before assets are retired.

The system access given to each user should agree to that approved on the security authorization form.

Edits should be established in POST to prevent incorrect object codes. General Services personnel should investigate items with low costs to determine whether the items need to be recorded on POST and if so, whether they are recorded at the appropriate amount. All location information should be completed on POST.

Management's Comment

Retirement of Equipment

We concur. Version 16.6.4 of POST was activated on February 18, 1999, and the property manager's security profile was changed on February 19, 1999, to remove USO capabilities. Management will do a closer review of retirement documentation. Nothing will be retired without complete review according to policy.

Security Administration

We concur. A review of the security forms was supposed to be completed by June of 1998. We were unable to complete this task until December of 1998. Security profiles will be compared to documents again to ensure correctness. While the documents reviewed by State Audit were incorrect, the actual profiles for the four users in question provided the security access that was needed.

Asset Values and Object Codes

We concur. The original problem of the system dropping object codes was fixed some time ago. We later discovered the field would accept any combination of numbers for an object code. A transfer screen edit was developed by our Information Systems division personnel that was made effective April 15, 1999, to ensure POST will only accept object codes 099, 095, and 16x. This edit should address the 39 items with incorrect object codes. The 389 items with blank object codes were all retired records and therefore, have no bearing on any financial reports coming out of POST. Effort is underway to provide the correct dollar amount for those items that have less than one dollar cost. All property officers are required to update location information during the fiscal year end inventories. However, we cannot control the actions of property officers in other departments.

Finding Number	98-CAFR-04
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Duties of Employees Performing Statewide Payroll Functions Are Not Adequately Segregated

Finding

Duties of employees performing statewide payroll functions in the Division of Accounts are not adequately segregated. One employee's responsibilities include processing and approving payroll transactions through the State Employee Information System (SEIS) and the Data Capture System (DCS) systems, correcting payroll processing errors, and monitoring the issuance of payroll checks. The employee also serves as the Security Administrator for both SEIS and DCS, giving this employee access to the security settings in the systems, which provide for many of the system controls. Effective internal controls over any accounting process require duties to be adequately segregated. One employee should not be responsible for normal payroll processing, error corrections, security administration, and have access to the actual payroll checks.

While there have been no known irregularities associated with the lack of segregation of duties, the situation allows possible errors and irregularities to occur and go undetected in a timely manner by employees in the normal course of performing their duties.

This same individual is the only employee who has a comprehensive understanding of the entire payroll process. Other employees rely heavily on this employee to help them correct payroll-related problems. When only one employee has full knowledge of an accounting process, other employees may be so dependent on this employee that the division would face a major crisis if the knowledgeable employee was suddenly unavailable.

Recommendation

The Director of Payroll should re-evaluate the processes and job duties of each employee in the statewide payroll section and develop a plan to ensure employees are not assigned incompatible duties creating situations that allow for misappropriation of assets. Job assignments should be re-evaluated on a periodic basis as changes in circumstances, conditions, and computer systems occur.

Management's Comment

We concur. Many compensating controls exist to ensure appropriate processing of payroll transactions. These controls include departmental initiation and approval of transactions, Department of Personnel approval and finally Payroll management review. Even though there have been no known irregularities, the Payroll management is currently re-evaluating the processes and job duties of each employee. A plan is being developed by Payroll management to ensure employees are not assigned incompatible duties.

Finding Number	98-CAFR-05
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Access to the State Employee Information System has not been regularly reviewed

Finding

The Division of Accounts statewide payroll section has not regularly reviewed access to the State Employee Information System (SEIS). Like other internal controls, access controls should be evaluated regularly to ensure they are still effective. Personnel and departmental changes can impact the effectiveness of these controls. Good security controls require access to systems to be limited to a "need-to-know, need-to-do" basis. Because security access has not been periodically reviewed, unused SEIS User IDs were noted. Of the 902 SEIS users as of August 8, 1998,

- 174 users had never signed on the system;
- 509 users had an active status but had not signed on the system in the last 180 days; and
- 79 users had an "inactive" status, which means that they are in "without pay status." (System security does not allow "inactive" IDs access to the system.)

The large number of unused User IDs indicates there are individuals with access who do not need it and should no longer have access to the system. Because of the sensitive nature of data in SEIS, limited access is vital.

When the Data Capture System (DCS) was implemented in fiscal year 1996, timekeeping functions were moved from SEIS to DCS. Therefore, many SEIS users no longer needed access to that system. However, neither the Security Administrator nor user management have reviewed the necessity of SEIS users' security access since DCS' inception.

Recommendation

Annually, the Division of Accounts should require the departments to review security access for all current User IDs to determine whether the access is still appropriate based on the employee's current job responsibilities. Appropriate changes should be made based on user management's recommendations. Departments should be instructed that User IDs and passwords should be revoked for those who no longer need access to SEIS. The Division of Accounts should eliminate all inactive user IDs from the system, even though inactive IDs do not allow access to the system.

Management's Comment

We do not concur. In our opinion, this is not a material weakness. The Division of Accounts controls access to the SEIS through an authorization process. Departments determine their own user needs based on their administrative control structure. The Division does not have a routine procedure for eliminating inactive user accounts, but one will be established. Inactive accounts have been removed.

Auditor's Comment

Management appears to be taking the action recommended.

Finding Number	98-CAFR-06
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The Division of Accounts internal Post-Audit review process needs improvement

Finding

The Division of Accounts reviews departmental expenditures through either the Post-Audit or Pre-Audit process before releasing batches of data in the State of Tennessee Accounting and Reporting System (STARS). For agencies in Post-Audit status, the Division reviews the department's expenditures to determine whether the documents have been approved by author-ized officials of the department and to ensure any corrections requested by the department are made. For agencies in Pre-Audit status, the Division performs a more comprehensive review of the department's expenditures before they are processed.

Agencies may request to be placed in Post-Audit status by the Division of Accounts. The Post-Audit section of the Division then performs a review of the department's internal controls completing an internal control questionnaire, as well as testing a sample of disbursements to determine if the department has properly processed and accounted for its transactions.

For departments that are placed in Post-Audit status, the Division states they perform periodic reviews to ensure the department should remain in Post-Audit status or whether it should be returned to Pre-Audit status. However, the Division has no written policies or procedures over the Post-Audit process that state how often they plan to perform periodic reviews.

There were sixteen departments in Post-Audit status as of July 1998. However, only one had a Post-Audit report issued during the 1998 fiscal year and two other departments had reports in progress at that time. Although recent sample testwork had been performed on the other thirteen departments, no reports were in progress or had been issued. The report is the method used by the Division of Accounts to document their decision regarding a department's Post-Audit status.

One department was notified in March 1993 that they would remain in Post-Audit status, but the department needed to improve their disbursement process and correct the signature authorization and segregation of duties problems. In July 1996, the Division of Accounts performed another Post-Audit review of this department. The Division of Accounts found many of the same problems that were noted in the 1993 review. However, the department was allowed to remain in Post-Audit status and told that another review would be performed in September 1996. The Division of Accounts told the department they would need to make significant improvements to remain in Post-audit status after the September review. The Division of Accounts did not perform the review until July 1998 and the report for this review was not available at the time of the audit.

When a department is in Post-Audit status, their expenditures are not subject to the same controls as the agencies in Pre-Audit status. If the department mentioned above had been on Pre-Audit status, the Division of Accounts may not have processed the documents with many of the errors noted until they were corrected. However, these transactions were processed with the errors because they did not go through the Pre-Audit process. Without timely completion of Post-Audit reports and proper follow-up of the Post-Audit recommendations, the Division of Accounts has little assurance that transactions for departments in Post-Audit status are being properly processed.

Recommendation

The Division of Accounts should develop written policies and procedures that address how often they plan to perform Post Audit reviews of the departments. In addition, management should prepare timely reports for all Post-Audit reviews performed.

Management's Comment

We concur. The Division has addressed the timeliness of reporting problem strategically by moving some responsibilities to a new section. Timeliness was affected by staff turnover and the resulting difficulty of finding qualified accountants willing to work within our pay scale. The division allocated the remaining resources to critical regulatory compliance issues such as federal 1099 reporting, the state's comprehensive annual financial reporting, and preparation of the schedules of grant activity required by the federal government. The responsibility for accurate and timely processing of accounting entries does not rest solely upon the Division of Accounts. As required by *Tennessee Code Annotated*, Section 9-18-102, each agency must accept responsibility for establishing and maintaining adequate accounting and administrative systems to assure that transactions are being properly processed. Guidelines for the timing of reviews will be established.

Finding Number	98-CAFR-07
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Signature Authorization Procedures Are Not Adequate

Finding

The Division of Accounts has not maintained complete and accurate signature authorization forms for each state department. Each state agency is required to submit a signature authorization form covering each of its allotment codes. The form documents the signatures of employees authorized to sign for the department head and budget/fiscal officer. Division of Accounts' employees use these forms to ensure transactions are properly approved before they are processed for payment.

The most recent Division of Accounts memorandum requesting signature authorization forms from each department stated:

> The upper right corner section of the signature authorization form identifies the administering agency allotment code and the agency division codes covered by the authorization form. These codes are important and should be completed carefully to insure only those authorized personnel are allowed to sign the appropriate accounting documents in each division.
>
> Complete a new signature authorization form at the beginning of each fiscal year for all personnel authorized to sign the fiscal officer and department head signatures on all accounting documents. ...The original signatures of the fiscal officer and the department head must appear in the designated space at the bottom of the signature authorization form to validate the authorized signatures. ...If changes occur in those personnel authorized to sign for the fiscal officer or the department head during the year, complete a new signature authorization form to replace the existing form on file in the [Division of Accounts].

The Division of Accounts has not ensured that signature authorization forms are received and updated by the departments when necessary. The Division of Accounts has not required each department to submit new forms at the beginning of each fiscal year. In addition, the Division has accepted improperly completed forms from the departments.

A review of 104 signature authorization forms on file was performed and the following errors were noted:

- Forty-three forms (41%) were not signed by the actual department head. Forty-one of the forms had a name other than the name of the department head in the designated space on the form and two of the forms were signed by a designee and initialed.

- Forty-two forms (40%) were not completed correctly. For example, people authorized to sign for the department head and fiscal/budget officer were to show their signature of the department head and/or fiscal/budget officer with their initials. However, they would sign their own name or they would sign a name of someone other than the department head or fiscal/budget officer.
- Thirty-six forms (35%) had a name other than the name of the actual budget/fiscal officer in the designated space on the form.

In addition, nine of 50 supplemental payroll transactions exceeding $10,000 (18%) were processed by the statewide Payroll Division, but were not properly approved at the departments. They were signed by an employee without authorization to sign for the department head. Also, eight of these 50 payroll transactions (16%) were not properly approved by the budget/fiscal officer in accordance with the signature authorization form. The payroll officer approved the transactions. The Division of Accounts does not require a different signature authorization form for payroll transactions, but uses the same form used for other fiscal transactions.

Furthermore, the department has not adequately administered the signature authorization process in relation to the Department of Mental Health and Mental Retardation (DMHMR). Signature authorization forms for the state's developmental centers still showed DMHMR officials as the department head and budget/fiscal officer. However, the developmental centers were moved by executive order from DMHMR to the Department of Finance and Administration on February 17, 1996, (Executive Order 9-Arlington) and October 14, 1996 (Executive Order 10-all others). In addition, the Division of Accounts has allowed forms for the developmental centers, the mental health institutes, and the correctional facilities to vary from the regular format. The Division has allowed the facility superintendents and facility fiscal officers to sign as the actual department head and fiscal officer.

Neither the Commissioner of Finance and Administration nor the budget/fiscal officer signed the Department of Finance and Administration's signature authorization forms for the Insurance Administration Division. The Division of Accounts authorization forms were not signed by the Commissioner of Finance and Administration. In addition, the designated employees did not always sign the name of the department head or fiscal director with their initials, but instead signed either their own names or another department employee's name for the department head.

Current signature authorization forms have not been maintained and used properly by the Division of Accounts. Although each department may have submitted a correct form at one time, many forms were no longer current because some of the employees listed had either changed positions or departments, or even terminated their employment with state government. Twenty-four of 52 agencies (46.2%) have one or more forms that have not been updated in more than one year.

Without using current and correct signature authorization forms, the Division of Accounts cannot ensure all transactions are being properly approved at the departments before they are sent to Accounts for processing.

Recommendation

The Division of Accounts should implement controls to ensure properly completed signature authorization forms are submitted at least annually for each department before processing a department's transactions. Management should also consider whether to require separate forms for payroll transactions since these transactions need to be approved by the payroll officer instead of the fiscal/budget officer.

Management's Comment

We concur. The Division of Accounts is currently revising the authorization form in ways to make it simpler for the preparer to complete and easier to understand management's intent. The Division of Accounts requested updated authorization forms during each annual accounting meeting except for the 1998 meeting. The reason the forms were not addressed at the 1998 meeting was because the auditors had raised questions about the content of the forms. The signature authorization form is not regulation nor is it state law. No commissioner or agency head can shirk his/her ultimate responsibility for the business conducted within his/her department. Departmental management decides who is authorized to sign forms that ultimately result in accounting transactions. Division of Accounts' concern is that the paperwork be completed and reviewed by a person who is knowledgeable about the transaction and related accounting classification information so that it can process an approved, accurate transaction. Upon revising the form, the Division of Accounts will establish another routine method for renewing the forms' information to more clearly reflect management's intent.

Finding Number	98-CAFR-08
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

All STARS Program Changes Were Not Properly Approved

Finding

Two of 10 State of Tennessee Accounting and Reporting System (STARS) program changes made (20%) did not have proper management authorization or approval. These program changes were initiated by staff in the Information Systems Management (ISM) division. Normally, the department uses a program change request to document the change and approval of the request. However, for these two program changes, no request form was completed. The request form requires approval of the test results, as well as endorsement by user management. Since the form was not completed, the approval of the program change was not properly documented.

Without a proper program change approval process, programs could be modified and changed without management's knowledge resulting in a system that does not meet user needs and stated objectives.

Recommendation

The Director of Information Systems Management should ensure all program change requests are initiated only upon written request and approved in writing before program changes are made.

Management's Comment

We concur. We will take the necessary steps to ensure that all program change requests are properly initiated and approved.

Finding Number	98-CAFR-09
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The Tennessee Insurance System has significant problems which have caused TIS and STARS not to reconcile

Finding

As noted in two prior audits, the Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management responded to the prior audit finding and stated that the Division of Insurance:

- had transferred the duties of balancing TIS to STARS from the Division of Accounts to the Division of Insurance,
- had established three work groups to address reengineering the information systems and focus on balancing TIS to STARS,
- had developed a priority list for TIS enhancements, which is reviewed and updated weekly instead of monthly and included high priority items on the Department of Finance and Administration's Annual System Plan, and
- was monitoring and tracking changes made through the Application Development Facility (ADF) for the purpose of reducing the number to zero. In March 1998, the division moved into production a COBRA 18^{th} month eligibility programming change that would eliminate five to ten ADF changes per month,
- was evaluating several options to improve the process for correcting the TIS database including a change in the base design and language of TIS. Also, the division was evaluating custom programs, which would allow TIS to be corrected via appropriate updates leaving appropriate audit trails.

Management also stated that due to the complexities of the systems involved, they did not expect that the actions described above would resolve all reconciliation problems within the next twelve months. However, they stated they were committed to providing both immediate and long-term resources required to implement corrective action.

The first four items mentioned appear to have been done by management while the fifth one appears to be in process. Although management has taken four of the five steps indicated in their prior comments, the same basic problems with TIS were still noted in the current audit.

Because of the many problems with TIS, numerous program changes are needed. Program change requests are maintained on a System Information Request Log (SIRLOG), which shows the system problem, date of change request, and priority of the item. As these problems are researched and corrected through program changes or other measures, they are cleared from the log. However, the current year log included 4 of 19 items (21%) carried over from the prior year.

Furthermore, the division is still using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions, an approach the Division of Insurance Administration (DIA) called "going through the back door" of the system. The system's security must be overridden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. As noted in the prior audit, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and was functioning properly, use of ADF would not be necessary. As previously noted, making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. Management concurred with the prior finding, stating that new procedures were being implemented but would not resolve all the reconciliation problems within the next twelve months. A new employee was hired in September 1997 to work on the reconciliation problem. This employee has been tracking the unreconciled amounts and reports to the TIS system information staff and is a part of a work group that was established to focus on the reconciliation issue. This work group has reviewed the TIS program change request log and changed the priority of the issues on the log. In addition, the department has included TIS issues in its three year reengineering plan. These steps should help the department address the problems with TIS; however, TIS and STARS still do not reconcile. The auditors noted unreconciled amounts between the net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1998 ranged from $79.00 to $84,676.41, with an average unreconciled amount of $32,099.17 for the twenty days reviewed.

"Certification" of insurance is an example of an accounting transaction that caused reconciliation problems. Certification occurs at month-end when employees' insurance premiums collected during the month are moved from the deferred revenue account into the revenue account. Funds that cannot be identified are considered "uncertified" amounts. We attempted to reconcile total collections according to TIS, taking into consideration the uncertified amounts, with revenue recorded in STARS. The result was a $43,376.71 unexplained difference. In addition, management noted on the July 15, 1998, System Information Request Log that collections applied and collections certified were out of balance as much as $200,000 to $400,000 per month.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated. These additional procedures would not have been necessary had all TIS activity been properly reflected on STARS.

Recommendation

The Commissioner should require the Director of Insurance Administration to develop plans of action to ensure that all TIS system problems are corrected as soon as possible. The Director of Insurance Administration should ensure that the work group makes timely changes to correct the many TIS problems. Old items on the Systems Information Request Log (SIRLOG) should be corrected and cleared from the log. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work group should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected through program changes or other appropriate means.

Management's Comment

We concur. As noted in the finding, the department is committed to resolving the problems with TIS. Also, as noted, there are no quick fixes for the system problems. Through on-going maintenance we have resolved or minimized some of the issues and we are prepared to begin a major re-engineering effort of the system in FY 2000. Management will closely monitor the progress and the projected completion date.

Finding Number	98-CAFR-10
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Office for Information Resources procedures for billing for dedicated equipment are inadequate

Finding

The Office for Information Resources (OIR) provides computer and telecommunication services and hardware to state departments and bills agencies for services provided statewide and for dedicated equipment which is for a specific agency's use. The rates charged by OIR for dedicated equipment should cover cost which includes an administrative fee. OIR has not been reviewing the cost versus recovery information for the dedicated equipment billings which has allowed agencies to be billed in excess of costs for dedicated equipment.

Of the 134 dedicated equipment cost centers reviewed, 34 (25%) had billings that resulted in over- or underbillings. Twenty of the cost centers (15%) had overbillings and 14 (10%) had underbillings. A number of these agencies receive federal funding and may have passed these under/overbillings to the federal government.

If billings are not accurate for dedicated equipment, state departments will not pay their proportionate share of the costs. Some would pay too much, while others would not pay enough for specific services and hardware.

Recommendation

The Chief of OIR should establish procedures to ensure revenues for each dedicated equipment cost center are properly matched against expenses.

Management's Comment

We concur. Timely close out for all dedicated equipment cost centers will be completed in the future.

Finding Number	98-CAFR-11
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

<u>Inventory tagging and billing procedures in the Office for Information Resources were not adequate</u>

Finding

Office for Information Resources' (OIR) equipment was surplused during the fiscal year but not promptly taken off the inventory records. OIR used improper tag numbers on this equipment which resulted in computer upgrades and software remaining on the equipment listing after they had been surplused with the upgraded equipment. Also, OIR wrote off additional items that were add-ons to equipment previously surplused. Adjustments were made to the equipment records to correct the balances before the financial statements were prepared.

Much of the equipment OIR purchases is used at other departments which pay OIR for the use of the equipment. When a department no longer needs a piece of equipment, it submits a Request for Service (RFS) instructing OIR to pick up the equipment and stop the billing. A review of RFSs disclosed the following weaknesses:

a. For 18 of 25 RFSs tested (72%), OIR billed agencies for more than 30 days after equipment was removed from the agencies by OIR personnel. The billings continued for 48 days to approximately 12 months.

b. For 20 of 25 RFSs tested (80%), the Property of the State of Tennessee (POST) system had not been updated within 30 days to indicate changes in the equipment's location. The delays ranged from 41 days to approximately 15 months.

When proper equipment records are not maintained, the probability increases that equipment will be lost or stolen and not be detected. If proper follow-up is not made when an RFS is completed, leasing agencies will be improperly charged for equipment they no longer have.

Recommendation

The Assistant Commissioner of Administration should ensure that appropriate inventory procedures are established and communicated to the agencies which are leasing the equipment, so OIR can make timely changes to the equipment and billing records. This should result in missing equipment being detected more promptly. If a piece of equipment is not found, Internal Audit and the Comptroller's office should be promptly notified; and the records in POST updated. As upgrades and software are added to equipment, POST records should be updated to include information about these add-ons.

The Assistant Commissioner for OIR should ensure that billings for equipment usage are stopped after an RFS is completed and that the records in POST are updated promptly. Each RFS should be tracked to ensure that the property records are updated timely and to ensure that the billings are correct.

Management's Comment

We concur that timely changes should be made to the inventory and billing records. It is the responsibility of F&A's fiscal office to facilitate an annual inventory of all OIR equipment, both internal use and leased. We have improved our inventory process for this fiscal year by providing training on the inventory procedures to OIR and other department's staff that lease equipment from OIR. Currently the number of items inventoried is improved over previous years. We are continuing to pursue items not inventoried with the appropriate departments.

Depending on the type of equipment/service, the appropriate staff from OIR is responsible for completing the RFS which includes updating the billing and inventory system. Department's leasing equipment from OIR are billed monthly for OIR equipment and services. Any billing discrepancies noted by a department will be corrected.