

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

Section III—Federal Award Findings and Questioned Costs

Finding Number	98-DES-01
CFDA Number	17.207, 17.801, 17.804
Program Name	Employment Services Cluster
Federal Agency	Department of Labor
State Agency	Department of Employment Security
Grant/Contract No.	2058
Finding Type	Cash Management
Questioned Costs	None

The department did not comply with cash management objectives

Finding

The Department of Employment Security's cash drawdown method did not comply with the cash management requirements of Office of Management and Budget Circular A-102 and U.S. Department of Treasury regulations. Part 31, Section 205.20 of the Code of Federal Regulations states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state.

Treasury regulations, which implement the Cash Management Improvement Act (CMIA), require state recipients to enter into agreements prescribing specific methods of drawing down federal funds for selected programs. The cash management agreement between the State of Tennessee and the U.S. Department of Treasury calls for Unemployment Insurance Administrative Costs to be drawn so that the department receives one-sixth of the quarterly administrative allowance for every pay period. This drawdown method was based on the assumption that the department would disburse the entire pro rata amount of its allowance each pay period. The Department of Employment Security complied with the method of drawing and receiving funds; however, it did not disburse all of the funds received in a timely manner. As a result, the department had accumulated unspent federal funds of \$5,614,690.50 at June 30, 1998. Although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

Recommendation

The drawdown provisions for the Unemployment Insurance Administrative Costs in the cash management agreement between the U.S. Department of Treasury and the State of Tennessee should be amended to ensure that the timing and amount of drawdowns are based on actual cash outlays, rather than on a fixed percentage of the administrative allowance.

Management's Comment

We concur with your audit finding for the year ended June 30, 1998, that the department did not comply with cash management objectives. As stated in your finding, although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

As of January 1, 1999, the CMIA agreement has been amended to reflect a change in the method of drawing down federal funds from a technique of Fixed Administrative Allowance (Semi-Monthly-Quarterly Administrative Allowance) to one of Cost Allocation (Actual Costs-Estimated Allocation – Semi-Monthly). This will result in the drawdown of actual costs from federal cost accounting system on a monthly basis.

Finding Number	98-DES-01
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Employment Security
Grant/Contract No.	2108, 2109
Finding Type	Cash Management
Questioned Costs	None

The department did not comply with cash management objectives

Finding

The Department of Employment Security's cash drawdown method did not comply with the cash management requirements of Office of Management and Budget Circular A-102 and U.S. Department of Treasury regulations. Part 31, Section 205.20 of the Code of Federal Regulations states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state.

Treasury regulations, which implement the Cash Management Improvement Act (CMIA), require state recipients to enter into agreements prescribing specific methods of drawing down federal funds for selected programs. The cash management agreement between the State of Tennessee and the U.S. Department of Treasury calls for Unemployment Insurance Administrative Costs to be drawn so that the department receives one-sixth of the quarterly administrative allowance for every pay period. This drawdown method was based on the assumption that the department would disburse the entire pro rata amount of its allowance each pay period. The Department of Employment Security complied with the method of drawing and receiving funds; however, it did not disburse all of the funds received in a timely manner. As a result, the department had accumulated unspent federal funds of \$5,614,690.50 at June 30, 1998. Although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

Recommendation

The drawdown provisions for the Unemployment Insurance Administrative Costs in the cash management agreement between the U.S. Department of Treasury and the State of Tennessee should be amended to ensure that the timing and amount of drawdowns are based on actual cash outlays, rather than on a fixed percentage of the administrative allowance.

Management's Comment

We concur with your audit finding for the year ended June 30, 1998, that the department did not comply with cash management objectives. As stated in your finding, although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

As of January 1, 1999, the CMIA agreement has been amended to reflect a change in the method of drawing down federal funds from a technique of Fixed Administrative Allowance (Semi-Monthly-Quarterly Administrative Allowance) to one of Cost Allocation (Actual Costs-Estimated Allocation -

Semi-Monthly). This will result in the drawdown of actual costs from federal cost accounting system on a monthly basis.

Finding Number	98-DOT-01
CFDA Number	20.106
Program Name	Airport Improvement Program
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The Department of Transportation did not monitor the non-major airports' compliance with the revenue diversion requirement

Finding

Section 511(a)(12) of the Airport and Airways Improvement Act of 1982 requires that all revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property. This requirement is referred to as "revenue diversion."

The State of Tennessee has approximately 83 airports. These airports include major and non-major airports. The six major airports in Tennessee are Memphis International, McKellar-Sipes Regional (Jackson), Nashville International, Lovell Field (Chattanooga), McGhee Tyson (Knoxville), and Tri-Cities Regional (Blountville). The remaining 77 airports in Tennessee are non-major.

According to a Memorandum of Agreement between the Federal Aviation Administration (FAA) and the Department of Transportation, the FAA will deal directly with the six major airports in Tennessee concerning compliance with the revenue diversion requirement and the department will be responsible for the remaining airports. However, based on discussions with the department's personnel, the department is not monitoring and evaluating the non-major airports' adherence to the revenue diversion requirement.

Recommendation

The department should develop policies and procedures to monitor and evaluate the non-major airports' compliance with the revenue diversion requirement.

Management's Comment

We concur. However, it should be noted that prior to October 1997, the Federal Aviation Administration (FAA) was responsible for ensuring compliance with the 37 federal grant assurances as outlined in the terms and conditions of accepting airport improvement program grants. This document contains the terms and conditions of accepting Airport Improvement Program grants from the FAA for the purposes of carrying out the provisions of Title 49, United States Code. The revenue diversion requirement is included in this document. In October 1997, the state received a block grant to be used for airport improvement programs at airports throughout the state. At that time, a Memorandum of Agreement was executed between the FAA and the Department of Transportation, Aeronautics Division, which gave the division responsibility for ensuring compliance by non-major airports with the 37 federal

grant assurances. Guidance provided the division by the FAA indicated that the FAA used third-party complaints to monitor compliance with the revenue diversion requirements.

However, in light of the advent of Policy 22 related to subrecipient monitoring, we agree that the former practice of relying on third-party complaints to ensure compliance is not sufficient. The external audit section is working closely with the Aeronautics Division to develop procedures that will guarantee the proper monitoring of non-major airports as it relates to the revenue diversion requirement.

Finding Number 98-DOE-02
CFDA Number 84.002
Program Name Adult Education - State Grant Program
Federal Agency Department of Education
State Agency Department of Education
Grant/Contract No. 6TA-ABL/V002A50043
Finding Type Allowable Costs/Cost Principles
Questioned Costs \$70,728.00

The Division of Adult and Community Education overspent programs of instruction (9-12) for fiscal year 1996

Finding

The Division of Adult and Community Education overspent the amount of federal funds permitted for Programs of Instruction (9-12). A review of the final Financial Status Report for fiscal year 1996 indicates that the division reported expenditures of \$1,286,028, which represents 21.2% of the grant award. *Code of Federal Regulations*, Title 34, Section 461.10, requires that a maximum of 20% be spent on programs for students trying to pass the General Equivalency Degree (GED). To comply with the federal regulations, the division should have spent no more than \$1,215,300. The difference of \$70,728 will be questioned.

Recommendation

The department should ensure that spending levels are met for grants. Minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. If grant amounts are amended, the appropriate steps should be taken to amend the affected programs' budgeted or appropriated limits.

Management's Comment

The department concurs with the recommendation that minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. The department has implemented improved fiscal accountability measures for this program. In addition, under the recent reauthorization of this program by Congress, many of the minimum and maximum spending limits have been eliminated.

The department does not concur with the cited questioned cost of \$70,728. Subsequent to the filing of the final *Financial Status Report* and the audit field work, one of the larger subrecipients of funds refiled its quarterly invoices for the year in question, showing a reduction from \$77,081.17 to zero in expenditures from federal funds for the "Instruction 9-12" category and a corresponding increase in federal expenditures for the "Instruction 0-8" category. According to the subrecipient's program personnel, based upon a reinspection of the nature of the subrecipient's program, all monies expended by the subrecipient can be classified as being spent on services designed for low literate and functionally illiterate adults. This change in reporting reduces statewide federal expenditures for "Instruction 9-12" by \$77,081.77, which is more than enough to offset the questioned cost of \$70,728.

In addition, under program regulations, recipients are allowed to spend up to 5% of the grant award for state administration. If recipients spend less than 5% for state administration, the additional funds that could have been spent for administration can be spent in other program categories. For the grant in question, the department underspent \$54,040 in state administration. Since these funds could have been spent for direct programs services, the department can apply the \$54,040 to the “Instruction 9-12” category, which would reduce the questioned cost.

The subrecipient cited above could also have counted up to \$23,200.44 of its local match as being applied to the “Instruction 9-12” category and reallocated federal funding originally reported as having been expended for this category to other program categories. This would have been allowable because, as noted in the U.S. Department of Education’s *A-133 Compliance Supplement*, there are no “supplement not supplant” or “earmarking” requirements at the subrecipient level. The cumulative effect statewide of reallocating the funding source to local funds for the “Instruction 9-12” category would reduce the questioned cost to zero.

Finding Number	98-DOE-03
CFDA Number	84.002
Program Name	Adult Education - State Grant Program
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	6TA-ABT/V002A50043
Finding Type	Allowable Costs/Cost Principles
Questioned Costs	\$228,870.00

The Division of Adult and Community Education underspent Section 353 funds for fiscal year 1996

Finding

The Division of Adult and Community Education underspent the amount of federal funds permitted for Section 353. A review of the final Financial Status Report for fiscal year 1996 indicates that the division reported training expenditures of \$455,054, which represents 7.5% of the grant award, special projects expenditures of \$227,551 which represents 3.7% of the grant award, and total expenditures for these areas of \$682,605, which represents 11.2% of the grant award. *Code of Federal Regulations*, Title 34, Section 461.33, requires that a minimum of 15% of the grant award be spent on special projects and training with at least 10% spent on training. The other 5% may be spent on special projects, training, or both. To comply with the federal regulations, the division should have spent at least \$911,475 on Section 353. The difference of \$228,870 will be questioned.

Recommendation

The department should ensure that spending levels are met for grants. Minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. If grant amounts are amended, the appropriate steps should be taken to change the affected programs' budgeted or appropriated limits.

Management's Comment

The department concurs with the recommendation that minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. The department has implemented improved fiscal accountability measures for this program. In addition, under the recent reauthorization of this program by Congress, many of the minimum and maximum spending limits have been eliminated.

The department does not concur with the questioned cost cited of \$228,870. As noted in previous findings related to this program in audit reports for prior years, the department has experienced difficulties in providing the detailed level of grant accounting necessary to accurately complete the *Financial Status Report*. Specifically, grants and subgrants were being coded to prior fiscal years regardless of contract number. While this has been corrected for more recent program years, starting with 1997, it had not been for the year that is the subject of this finding. In fact, it appears that the under-spending for 1996 can be attributed to the corrective action taken in 1997, which caused an end to the practice of coding grants and subgrants to prior fiscal years regardless of contract number. Thus, fewer grants and subgrants were charged to 1996 than would normally have been the case if the corrective action procedures had not been implemented.

Because of the prior reporting problem, the department believes that to substantiate compliance, expenditures for Section 353 must be viewed over a multi-year period. To provide such an overview, the department has developed the following table:

Year	Grant Amount	Required Expenditures	Actual Expenditures	Actual over Required
1994	\$ 5,958,003.45	\$ 893,700.52	\$1,008,407.58	\$ 114,707.06
1995	6,112,527.15	916,879.07	1,101,400.81	184,521.74
1996	6,051,837.73	907,775.66	686,104.30	(221,671.36)
1997	<u>5,939,743.71</u>	<u>890,961.56</u>	<u>939,371.67</u>	<u>48,410.11</u>
Total	<u>\$24,062,112.04</u>	<u>\$3,609,316.81</u>	<u>\$3,735,284.36</u>	<u>\$125,967.55</u>

This table shows that although the State underspent in Section 353 during the 1996 year, more funds were spent for Section 353 during the two preceding and the succeeding year than was required. Over the four-year period, Tennessee spent \$125,967.55 more than required. Based on the analysis presented above, the department believes it has substantively complied with the requirements and that no funds are due back to the Federal government.

Finding Number	98-DOE-01
CFDA Number	84.027, 84.173
Program Name	Special Education Cluster
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	6LL-AAX and 6LL-ACX/H027A50052
Finding Type	Period of Availability of Funds
Questioned Costs	\$15,595.47

The Division of Special Education spent funds outside the period of availability

Finding

The Division of Special Education charged expenditures that were not obligated within the period of availability to the fiscal year 1996 Special Education – Grants to States program. The period of availability for this program was from July 1, 1995, through September 30, 1997. Seven reallocation journal vouchers and 96 expenditure transactions were posted to this program after September 30, 1997. A review of these documents revealed that one reallocation journal voucher and two expenditure transactions were not obligated prior to September 30, 1997. The reallocation journal voucher covered salaries and benefits for the period July 1, 1997, through December 15, 1997. Salaries and benefits totaling \$13,986.20 were obligated after September 30, 1997. The two expenditure transactions were for travel costs totaling \$1,609.27 that were incurred during the period November 3, 1997, through March 31, 1998. Total costs of \$15,595.47 will be questioned.

Period of availability of funds as defined by the *United States Code*, Title 20, Chapter 31, section 1225(b)(1), allows funds to be carried forward to the next fiscal year for obligation and expenditure if not spent during the original grant period.

Recommendation

The department should closely examine dates of services when assigning expenditures to grants to ensure that the grant funds are still applicable. If expenditures' dates are not readily apparent, or there are questions about the dates, then supporting data should be obtained from the source.

Management's Comment

We concur. When reallocation journal vouchers and expenditure transactions were being prepared as part of the closing process at September 30, 1997, one reallocation journal voucher and two expenditure transactions were improperly included. The questioned costs will be returned and greater care will be taken in the future to ensure that this does not happen again.

Finding Number	98-APS-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	Austin Peay State University
Grant/Contract No.	E-P063P76150
Finding Type	Reportable Condition
Questioned Costs	None

The university had no procedure for recalculating Pell awards when students did not begin attending some of their classes

Finding

As stated in the prior audit, the student financial aid office had no procedure in place to determine whether Pell recipients began attending some classes. The unofficial withdrawal of student financial aid recipients from all classes was monitored; however, this monitoring would not detect those who failed to begin attending a portion of their classes and would not signal the need to recalculate the Federal Pell Grant awards to those students. The Federal Student Financial Aid Handbook, chapter 4, page 64, states that “if the student does not begin attendance in all of his or her classes, the school must recalculate the student’s [Pell] award based on the lower enrollment status.”

The absence of a procedure to determine if a Pell recipient has failed to begin attending some, but not all, classes could result in an overaward to some recipients. Procedures were developed for implementation in the fall of 1998.

Recommendation

The Director of Student Financial Aid should ensure the procedures developed to determine if Pell recipients begin attending all classes are implemented and continuously applied. Pell awards should be recalculated whenever a student fails to begin attending any class.

Management’s Comment

Management concurs with the finding and recommendation. An attendance reporting procedure was implemented beginning Fall 1998. Faculty report whether students began attendance with a FN grade (failure because they never attended) or a FA grade (failure because the student has stopped attending). Student awards are recalculated as needed and if appropriate they are billed. Pell awards will continue to be recalculated and the Pell award revised as needed.

Finding Number 98-TSU-02
CFDA Number 84.063
Program Name Federal Pell Grant Program
Federal Agency Department of Education
State Agency Tennessee State University
Grant/Contract No. E-P063P976282
Finding Type Eligibility
Questioned Costs \$275.00

Student financial assistance was awarded to an ineligible student

Finding

One of 60 students whose eligibility was tested (1.7%) did not meet the eligibility requirements. The student's award was \$275, which represented .0058% of the \$47,450 tested. Total Federal Pell Grants for the year were \$6,309,185.50.

The *Federal Student Financial Aid Handbook* states that "a person generally is not eligible for SFA [student financial aid] funds if he or she is in default on an SFA loan or must repay an SFA grant." This student was in default on a loan, but she still received her Federal Pell Grant.

Recommendation

The Director of Financial Aid should ensure that counselors check each student's former loan status, and flag the accounts of students who are in default as ineligible for federal financial aid.

Management's Comment

We concur. The university has repaid the \$275 Pell Grant to the U. S. Department of Education.

Finding Number	98-UTK-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P76293
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Knoxville does not recalculate Federal Pell Grant awards to students who fail to begin attendance in all of their classes. Recalculations do not occur because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in all of their classes. The *Federal Student Financial Aid Handbook*, chapter 4 , page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Director of Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student fails to begin attendance.

Management's Comment

The University concurs with the finding. For the Knoxville campus beginning Fall semester 1999, attendance at the first day of class will be reported, and a second verification of attendance will be made on the corrected 14 day class rolls. At the end of the semester, a final check on student attendance will be made with the grade of FX, which is available for faculty to use on grade reports to identify students who never attended class.

Finding Number	98-UTH-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P986295
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards at Memphis are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Memphis does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. Recalculations do not occur because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in some classes. The unofficial withdrawal of student financial aid recipients from all classes is monitored; however, those who fail to begin attendance in a portion of their classes are not detected through this procedure. The *1997-1998 Student Financial Aid Handbook*, Chapter 4, page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Director of Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student fails to begin attendance in any classes.

Management's Comment

The University concurs with the finding. The Memphis campus financial aid office has developed a process in which each Pell recipient will be given a document at the beginning of the semester which will record the instructor's certification that the Pell recipients began attending each class. Financial aid already has a module in the financial aid system which can produce, track and follow up the certification process. By using this process financial aid expects to be able to recalculate awards more readily.

Finding Number	98-TSU-01
CFDA Number	84.007, 84.038, 84.063, 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	Various
Finding Type	Reportable Condition, Special Tests and Provisions
Questioned Costs	\$3,600 (plus \$44 due to student)

Some refunds due student financial assistance programs were not calculated correctly

Finding

The university is required to refund a portion of financial aid to applicable financial assistance programs when students receiving such funds withdraw from the university. Some of the refunds due Title IV student financial assistance programs—the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan, and Federal Direct Student Loan programs— were not calculated correctly. Six of 16 sample refunds calculated using the state refund policy (37.5%) were not accurate.

The *Federal Student Financial Aid Handbook* states that “the Higher Education Amendments of 1992 define a ‘fair and equitable refund policy’ as one that provides for a refund of at least the largest amount under: applicable state law; specific refund requirements established by the school’s ... accrediting agency... or the pro rata refund calculation.” The 16 refund calculations noted above were based on the state refund policy. The Tennessee Board of Regents Guideline B-060, which is considered state policy for the university, allows the university to keep 25% of its institutional charges in the first two weeks after classes begin and 75% thereafter. The university’s computer system is used to calculate the amount to be refunded to each program and to the student, if excess funds remain after program allocations. The housing department is responsible for making the adjustments to the system for the appropriate percentage of room and board.

The housing department’s failure to adjust the room and board created the majority of the errors, resulting in underpayments of \$2,361.25 to the financial assistance programs and \$44 to a student. The computer calculation was not performed correctly for two students, resulting in underpayments of \$4. A check issued to one student was used to offset \$9.75 of the refund amount. One student’s refund was originally calculated correctly and returned to the appropriate programs, but later \$1,225 of the refund was credited to the student’s account. The total of the refunds due over the refunds returned, as calculated by the auditors, was \$3,644—\$865 for the Direct Student Loan program, \$735 for the Federal Pell Grant program, \$1,000 for the Federal Supplemental Educational Opportunity Grant program, \$1,000 for the Perkins Loan revolving fund, and \$44 to the student.

Recommendation

The Vice-President of Business and Finance should ensure coordination among the financial aid office, business office, and housing department so that the amounts credited back to the federal programs and refunded to the students will be calculated properly.

Management's Comment

We concur with the finding and recommendation. On December 7, 1998, the Housing Office, a division of Student Affairs, made corrections to the pertinent students' accounts. After these corrections and the other corrections to students' accounts by the Bursar's Office, the Financial Aid Office made the necessary adjustments to relevant federal programs. The Bursar's Office has updated the computer table to correct the computer calculation. By March 15, 1999, the Department of Computer Services will assist the Housing Office by providing them with a FOCUS report that will allow them to monitor student account adjustments involving room and board. With the assistance of the FOCUS report, the Housing Office will review the fall 1998 and spring 1999 semesters to ensure that the necessary housing adjustments have been made.

Finding Number	98-UTK-02
CFDA Number	84.007, 84.038, 84.063
Program Name	Student Financial Aid Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The University of Tennessee at Knoxville does not effectively monitor class attendance for evidence of unofficial withdrawal

Finding

The University of Tennessee at Knoxville does not monitor class attendance for evidence of unofficial withdrawal. The 1997-1998 *Student Financial Aid Handbook*, chapter 3, page 87, states, "Participating SFA [Student Financial Aid] schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal."

The absence of adequate procedures to monitor financial aid recipients for unofficial withdrawal could result in an overaward to some recipients. In other cases, necessary refunds may not be made.

Recommendation

The registrar's office and the student financial aid office should develop implement procedures to monitor unofficial withdrawal. Refunds and repayments should be made whenever a financial aid recipient is determined to have unofficially withdrawn.

Management's Comment

The University concurs with the finding. For the Knoxville campus beginning Fall semester 1999, attendance at the first day of class will be reported, and a second verification of attendance will be made on the corrected 14 day class rolls. At the end of the semester, a final check on student attendance will be made with the grade of FX, which is available for faculty to use on grade reports to identify students who never attended class. Students receiving financial aid under Title IV who are identified through these checks as not attending class will be contacted for repayment of loans when their lack of attendance changes their registration status.

Finding Number	98-UTH-02
CFDA Number	84.007, 84.038, 84.063
Program Name	Student Financial Aid Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The University of Tennessee at Memphis failed to promptly return financial aid refunds

Finding

The University of Tennessee at Memphis bursar's office did not return the federal financial aid portion of refunds to the appropriate programs or lending institutions in a timely manner. The *Code of Federal Regulations*, Section 34, Part 668.22 (h)(2)(iv), states:

The amount of the Title IV, HEA [Higher Education Act of 1965] program portion of the refund allocated to the Title IV, HEA programs other than the FWS, Federal Stafford Loan, Federal PLUS, and Federal SLS programs must be returned to the appropriate program account or accounts by the institution within 30 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn.

For refunds to lenders, the *Code of Federal Regulations*, Section 34, Part 682.607 (c)(1) states, "A school shall pay a refund that is due within 60 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn."

Nine of 19 refunds tested (68%) were not returned to the appropriate program or lender within the required 30 or 60 day time period. In six cases, the university had not returned the refund.

Recommendation

The bursar's office should return the federal financial aid portion of refunds to the appropriate programs or lending institutions within the time frame specified by federal regulations.

Management's Comment

The university concurs with the finding. The Bursar's Office at UT Memphis will establish procedures to return the Federal financial aid portion of refunds to the appropriate programs or lending institutions within the timeframe specified by Federal regulations.

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 authorized 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-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

**Inventory tagging and billing procedures
in the Office for Information Resources were not adequate**

Finding

Office for Information Resources' (OIR) equipment was surplusd 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 surplusd with the upgraded equipment. Also, OIR wrote off additional items that were add-ons to equipment previously surplusd. 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.

Finding Number	98-CAFR-12
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 Resource Development and Support's policies and procedures over monitoring agreements needs improvement

Finding

Through agreements with other state departments and two divisions within the department, the Division of Resource Development and Support (RDS) monitors subcontractors for other state agencies and divisions. Deficiencies were noted in several areas

- a. RDS did not comply with the state's contracting procedures. The agreements for monitoring services with the Department of Human Services and the Department of Children's Services were written as memoranda of understanding. However, the Office of Contracts Administration's rules and regulations do not address the use of memoranda of understanding. The Office of Contract Administration's rules and regulations only list interdepartmental contracts as the method of contracting between agencies. The absence of rules and regulations or policies and procedures allowing the use of memoranda of understanding indicates they are not an approved method of contracting between agencies.
- b. The monitoring agreements were not approved before the start of the agreements. The approval signatures for the agreement with the Office of Criminal Justice (OCJ) were dated four and one-half months after the start of the agreement; however, no work was started until the agreement was signed. In addition, the agreements with the Department of Children's Services and Human Services were not dated. Contracts should be properly entered into and signed and dated by all parties before the effective date of the contracts to ensure they are properly executed documents.
- c. The monitoring agreement with Human Services did not describe specific procedures to be followed by RDS staff during the fiscal monitoring visits performed for Human Services. All contracts whether with another state department or outside party need to clearly state the terms and conditions for both parties. Full disclosure could prevent misunderstandings or unmet obligations on either party's part.
- d. Not all subcontractors listed in the agreements were fiscally monitored by RDS staff.
 - Two of 11 Human Services subcontractors (9.1%).
 - Fifty-five of 110 Office of Criminal Justice fiscal year 1998 subcontracts (50%).

The memorandum with the Office of Criminal Justice states that OCJ is to provide a list of contracts to be reviewed by RDS. This list is Attachment B to the memorandum of understanding and lists the 110 subcontractors. Management stated that it did not intend for all subcontractors referenced in the

agreements to be monitored. However, the documents indicate that all or at least most subcontractors would be monitored, but only 50% of the subcontractors were actually monitored for fiscal year 1998.

Recommendation

The commissioner should ensure agreements involving the department and other state departments comply with state contract policies and procedures. All contracts should be signed and dated no later than the effective date of the contract.

Management's Comment

We do not concur. All issues noted in the finding are at best procedural issues. There were no detrimental consequences arising because of the format of the agreement, the date the contract was signed, not specifying fiscal monitoring procedures and not specifying specific contracts to be monitored.

However, in the future the department will use interdepartmental agreements with all state agencies and memorandum of agreement for programs within Finance and Administration (i.e. Office of Criminal Justice, Commission on National and Community Service, etc.). To the extent possible, all agreements will be in place prior to the start date.

Auditor's Comment

Management appears to be taking the action recommended.

Finding Number 98-DHS-01
CFDA Number 93.563
Program Name Child Support Enforcement Program
Federal Agency Department of Health and Human Services
State Agency Department of Human Services
Grant/Contract No. G9804TN4004
Finding Type Material Noncompliance, Special Tests and Provisions
Questioned Costs None

The department did not comply with child support enforcement procedures

Finding

As noted in the four prior audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Enforcement Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations.

The most significant deficiencies noted in the prior audit concerned the department's failure to take all necessary steps to locate noncustodial parents. The Tennessee Child Support Enforcement System (TCSES) was designed to automate much of the necessary location activity; however, the TCSES locate function was completely disabled during the prior audit period and for much of the current audit period. Management concurred with the prior audit findings and stated, "The importance of locate interfaces is recognized and will continue to be a major emphasis in the program. The state reactivated the locate interfaces as of November 24, 1997. Locate was activated by [judicial] districts with the expectation that all districts will be activated by May 27, 1998." According to management, the locate interfaces were reactivated statewide as of July 30, 1998, but the most critical locate interfaces were again disabled in August and September 1998 when problems occurred. Management, however, was not aware the locate interfaces had again been disabled until January 1999 because of a series of miscommunications between department and Andersen Consulting personnel. Once the locate function is operating properly, many of the issues discussed in this finding should be resolved.

In a review of active child support cases using the Tennessee Child Support Enforcement System (TCSES), the following weaknesses were noted:

- a. Nine of 24 cases tested (37.5%) did not have evidence that all feasible sources were used to attempt to locate the absent parent. *Code of Federal Regulations*, Title 45, Section 303.3(b)(1), states:

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

maintain records of public assistance, wages and employment, unemployment insurance, income taxation, driver's licenses, vehicle registration, and criminal records.

- b. Ten of 11 cases tested (90.9%) did not have evidence that the Federal Parent Locator Service (PLS) was used within 75 days of determining that locate functions were necessary. *Code of Federal Regulations*, Title 45, Section 303.3(b)(3), states, "Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources, including transmitting appropriate cases to the Federal PLS, and ensure that location information is sufficient to take the next appropriate action in a case."
- c. Ten of 23 cases tested (43.5%) did not have evidence that attempts to locate absent parents were repeated quarterly or immediately upon receipt of new information. *Code of Federal Regulations*, Title 45, Section 303.3(b)(5), states that the IV-D agency must
- repeat location attempts in cases in which previous attempts to locate absent parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner.
- d. One of five cases tested (20%) contained no documentation that the child support order was reviewed within a 36-month interval. Therefore, it could not be determined whether notification of a review should have been sent to each parent at least 30 days before the review or whether each parent should have been notified of the results of the review. *Code of Federal Regulations*, Title 45, Section 303.8(c)(4), states that the state must "review child support orders at 36-month intervals after establishment of the order or the most recent review."
- e. Four of 22 cases tested (18.2%) did not have evidence of attempts to enforce all child support obligations. *Code of Federal Regulations*, Title 45, part 303.6(b)(2), states that enforcement action is required to be taken "within 30 calendar days of identifying a delinquency or other support-related noncompliance with the order...."
- f. One of six cases tested (16.7%) contained no documentation that an order for medical support was enforced by the IV-D agency. *Code of Federal Regulations*, Title 45, Section 303.31(b)(7), states, "If health insurance is available to the absent parent at reasonable cost and has not been obtained at the time the order is entered, [the IV-D agency shall] take steps to enforce the health insurance coverage required by the support order. . . ."
- g. Six of 38 cases tested (15.8%) were not classified correctly in TCSES.
- For three cases, the case type in TCSES did not reflect pertinent information from the Automated Client Certification and Eligibility Network system. The conversion errors appear to have occurred when the cases were established in TCSES.
 - For two cases, the noncustodial parent (NCP) was classified as not located when the NCP was actually located and making regular payments. The case record in TCSES appears to have not been updated properly.
 - One case was assigned ten different case numbers.

Correctly classifying the case type in the system is essential for proper distribution of child support. When numerous case type errors exist, case workers can lose confidence in the reliability of the system.

- h. Three of 39 cases tested (7.7%) were not valid open cases. These cases were classified as active open when they should have been classified as closed. When the active case population includes cases that are not valid or should no longer be open, a child support worker's attention can be diverted needlessly from truly active cases.

The failure to promptly attempt to locate absent parents, to repeat location attempts as necessary, to enforce child support and medical support orders, to classify cases correctly, to close cases timely, and to review orders timely may deprive caretakers and dependent children of needed financial support or deprive the state's Child Support Enforcement Program of reimbursement of program expenses.

In light of the high error rates related to location functions, computer-assisted auditing techniques were used to analyze location attempts for the entire population of individuals with a status of "active, not located." Emphasis was placed on location activities considered to be key for compliance with federal regulations—the use of the Electronic Parent Locator Network, the Federal PLS, and the periodic cross-matches with state employment security agency databases.

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

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

Recommendation

The Director of Child Support should ensure that all available sources are used to locate absent parents, and if attempts are unsuccessful, location attempts should be repeated at least quarterly or immediately upon receipt of new information. The director should ensure that attempts are made to enforce the necessary support obligations. Further, the director should ensure that all cases on TCSES are classified correctly and that support orders are reviewed in a timely manner. The commissioner should ensure that the efforts of the Director of Child Support are frequently monitored to ensure compliance with child support enforcement procedures. The Director of Child Support and the Director of Internal Audit should work together to perform analytical procedures on the TCSES databases to monitor activity and determine areas of noncompliance. The failure to comply with child support enforcement procedures should result in appropriate administrative action.

Management's Comment

We concur. During the past several audit periods, the Department of Human Services has been involved with the process of automating the location of absent parents. The department undertook the automation process with the knowledge that it would be a long-term project and that unforeseen problems would arise. The automation process was slowed by the complex nature of locating parents, the involvement of other agencies, system conversions, and the enormous amount of transactions. The department understands the importance of locating noncustodial parents. We are committed to resolving remaining system problems and fully utilizing the automated locate system.

The following actions related to this finding have been initiated:

- I. The locate functions of TCSES which were disabled in August and September 1998 are being modified as needed. Phasing in of the reactivating of locate functions started in March 1999. Anticipated completion date is August 1999.
- II. Status meetings of the project management team occur biweekly. The team includes the Director of Child Support, Program Managers of Child Support, Director of Child Support Fiscal, Information Systems TCSES Project Manager, and Andersen Consulting Project Management. The purpose of the status meetings is to discuss priorities, problem areas (on-line and batch) and problem resolution. All priority items will be tracked with a written status report. In addition, TCSES steering committee meetings are scheduled on a monthly schedule and more frequently as needed. The steering committee includes the Assistant Commissioners of Family Assistance and Administrative Services; Directors of Child Support, Information Systems, Fiscal Services, and Project Management from DHS; and Andersen Consulting. The purpose of this is to establish top priorities and track development and implementation activities and establish corrective action procedures when appropriate.
- III. The Director of Child Support will consult with the Director of Internal Audit to develop an appropriate plan of action relating to TCSES activity and compliance. Status of TCSES modifications and problems encountered which will create a delay in implementation or require a modification to existing production processing will be provided to the Director of Child Support in writing. Approval must be received from appropriate state staff (Director of Child Support or Fiscal Services or Child Support Program Managers or IS Project Manager) prior to on-line or batch modifications or the disabling of any production functionality.

The department's response to each noted weakness follows:

- a. The department will re-emphasize through quarterly training meetings with local enforcement offices the importance of using all locally available location resources and properly documenting TCSES with the effort and the result for each case action. Informational memoranda will be issued as deemed necessary to reinforce a correct understanding of the need to use local resources and enter proper documentation in TCSES. A plan is in place to reactivate the TCSES locate interfaces in a phased schedule beginning in March 1999 and concluding in August 1999.
- b. The capability to transmit appropriate child support cases to Federal PLS is part of the systematic approach referred to in Response 1a. This feature required formatting changes to the file layout to enable the interface to work properly and is scheduled to be active by July 1999.

- c. With the activation of the location interfaces as described in Response 1a., locate will be attempted quarterly or when new information is made available.
- d. The department will re-emphasize review and modification policy during quarterly training sessions and through Informational memoranda as appropriate, stressing the necessity to properly update TCSES with effort and result.
- e. We will emphasize compliance with child support enforcement by quarterly training, policy issuances as appropriate, through the child support annual conference and by any other appropriate means.
- f. We will re-emphasize the need to take appropriate steps to enforce medical support by quarterly training, policy issuances as appropriate, through the child support annual conference and by any other appropriate means. Federal and state work groups are currently working to identify obstacles faced by states to effectively enforce medical support. We will provide appropriate information to assist the work groups and will look with interest at any solutions or recommendations offered by the work groups that might enhance our medical support enforcement capabilities.
- g. An automated case type change update was completed on all cases in TCSES during the months of July to November 1998. The purpose of this update was to modify TCSES with the appropriate case type based on information from the ACCENT system. Cases that could not automatically be updated were identified for the local offices so that a manual correction could be applied if appropriate.
- h. Reports of the local offices' caseload and reports of cases with orders or with paternity established were provided to each of the judicial districts during the summer of 1998. Many of the districts have used these reports to assist in closing cases that are appropriate for closure. With each unique activity, such as IRS intercept, as well as the normal case activity, the local districts are taking actions to clean their caseload and close cases that are appropriate for closure. We will continue to work with the districts to make this a priority. Management reviews of the local office operation were completed in many of the judicial districts during calendar year 1998. A major focus of this review was to assess the status of the caseload clean-up. Recommendations for corrective action were provided to the administrator and the area coordinator as determined appropriate by the review.

Finding Number	98-DHS-02
CFDA Number	93.563
Program Name	Child Support Enforcement Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G9804TN4004
Finding Type	Material Noncompliance, Special Tests and Provisions
Questioned Costs	None

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

Finding

As noted in the four prior audit reports, the department did not comply with federal regulations concerning the timeliness of distribution of child support payments. The department concurred with the prior audit findings and stated that the new child support system (TCSES), when implemented, would resolve these problems. However, the department had not fully completed the transition to TCSES tax-intercept processing during the audit period.

The *Code of Federal Regulations*, Title 45, Section 302.32(f)(2)(iv), requires that intercepted federal income tax refunds be distributed, as appropriate, "within 30 calendar days of the date of initial receipt by the IV-D agency." Ten of 19 intercepted IRS tax refunds reviewed (52.6%) were distributed late or not processed at all. These payments were remitted from two to 405 days late as of November 22, 1998. Many of the tax intercepts were processed using the old Child Support Management System (CSMS) or were processed manually during the transition to TCSES tax-intercept processing.

In addition, the local child support enforcement offices were contacted to determine whether the local office had records that the tax intercepts had taken place and whether the noncustodial parents' arrearage balances had been properly adjusted to reflect the intercepted funds. Eight of 19 district offices (42.1%) replied that they had no record the intercepts had occurred, and 12 (63.2%) replied that the arrears had not been adjusted to reflect the intercepted funds. The *Code of Federal Regulations*, Title 45, Section 303.102 (g)(3)(iv), states, "The State must credit amounts offset on individual payment records."

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

Recommendation

The Director of Child Support should comply with federal regulations for the child support enforcement program and ensure funds are distributed timely to custodial parents. In addition, the Director of Child Support should ensure case records are updated to reflect the changes in arrearage balances. The commissioner should frequently monitor the distribution of child support payments to ensure accurate and timely distributions are made. The failure to make accurate and timely distributions should result in appropriate administrative action.

Management's Comment

We concur that distributions of IRS offsets were not always made within required time frames. During the audit period, the department was still in the transition process to the new system (TCSES) for IRS processing. We were also continuing to resolve the IRS processing backlog from previous periods. All IRS processing is now being performed in TCSES. We do expect that IRS offset collections will be processed within required time frames. The local offices do receive, and have in past years received, reports of all IRS offset collections.

Finding Number 98-DCS-03
CFDA Number 93.645
Program Name Child Welfare Services - State Grants
Federal Agency Department of Health and Human Services
State Agency Department of Children's Services
Grant/Contract No. 9001TN1407 through 9801TN1407
Finding Type Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs \$776.33

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance (\$487.98), Title IV-E Foster Care (\$10,163.16), Title IV-B (\$776.33), Social Services Block Grant (\$8,313.29), and Title XIX (TennCare) (\$18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-01
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children’s Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Reportable Condition, Eligibility
Questioned Costs	None

The department could not determine the location of children and their specific case and eligibility files in a reasonable period of time

Finding

The department could not determine the location of children and their specific case and eligibility files within a reasonable amount of time. The request for 75 case files for children receiving Title IV-E funds was made on August 3, 1998. It was six weeks later before all locations were provided and eight of the 75 locations provided (10.66%) were incorrect.

When the central office staff received the request for the locations of the 75 files, the list was emailed to the regional administrators. The central office staff chose this method as the most efficient way to locate the files, because the regional administrators are responsible for knowing this information. Because the location of the case files is not readily available at the central office, central office staff have to rely on field office staff across the state to determine where case files are located.

The purpose of having a centralized office is to organize and coordinate the efforts of the statewide department. This task could be more effectively performed if the central office had direct access to the location of the children and their case files. If the department’s Comprehensive Operation and Review System (CORS) had correct information concerning the child’s placement history, the information to locate the children and their files would be readily available.

Recommendation

The central office should take responsibility for knowing the location of all children in the system, as well as the location of all case and eligibility files. A system should be developed to give the central office on-line access to current and reliable information regarding the location of all children, their case files, and eligibility files. Case workers should be responsible for updating the information each time a child and the child’s files are moved. Personnel in the central office should be able to access location information at any time without having to contact personnel in field offices across the state and wait six weeks to obtain needed information.

Management’s Comment

We concur. The Internal Audit Division was and has been designated the contact between State Audit and the department. All files requested were given to that division for communication to the field for the location and delivery of files for review. A total of 186 files in 4 separate lists were requested from the DCS auditors and the TennCare auditors for review. The department will, however, work diligently in the future to locate requested files in a timely manner.

Finding Number 98-DCS-02
CFDA Number 93.658
Program Name Foster Care – Title IV-E
Federal Agency Department of Health and Human Services
State Agency Department of Children’s Services
Grant/Contract No. 9501TN1401 through 9801TN1401
Finding Type Material Weakness, Eligibility
Questioned Costs None

Status changes for foster children are still not processed promptly

Finding

As noted in four previous audits, which covered the period July 1, 1993, to June 30, 1997, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

As stated in management’s comments to the prior finding, the Children’s Plan Financial Information System (ChipFins) database is now updated by the caseworkers when a child’s foster care placement changes. However, when caseworkers do not enter placement changes in ChipFins before the next benefit payment cut-off date, payments will continue to be made to foster parents or vendors. If caseworkers do not enter the placement changes timely, they must submit change-in-status adjustment forms to the central office to correct the over- or under- payments. As indicated in management’s comments to the prior audit finding, the department began preparing monthly reports which show the adjustment forms received, and the amount of the changes by caseworker. Starting in January 1998, the report was provided to central program staff as well as to the Regional Administrators for their review to determine why the changes are not being made timely by the caseworkers.

Adjustment forms for the time period January through June 1998 show that 615 adjustments were made, totaling \$248,822.40 in overpayments and \$19,792.73 in underpayments. The department paid the total amount of underpayments to the vendors. However, Children’s Services could not determine, nor was it willing to take the time to calculate, the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete. The inability of fiscal staff to determine collections made against overpayments shows a complete lack of concern for proper accountability and disregard of monies owed the state.

Since the department started preparing and reviewing the monthly reports, the number of adjustments has decreased, but it appears that there is still a problem with status changes not being made timely by the caseworker.

Furthermore, this monthly report of adjustments shows when status changes were made late, but does nothing to determine if status changes should have been made, but were not. A review of case files by caseworkers’ supervisors would be necessary to ensure that the caseworkers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure caseworkers enter child placement information in ChipFins timely. These procedures should include a requirement that the caseworkers' immediate supervisor examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against caseworkers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur, however, the department has made significant efforts to address this issue. Starting in March 1998 the Fiscal Division started tracking the number of status changes submitted to that office from field staff. This process was initiated after Internal Audit did an initial analysis for the period of January through September of 1997. This initial analysis was given to the Regional Administrators to indicate problem counties where this issue needed to be addressed more specifically. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address any indicated problems. Internal Audit has prepared three month trend analyses which are reported to the Director of Regional Services and the Deputy Commissioner. These three month analyses indicate that the status changes submitted to the Fiscal Division have dropped from \$81,700 in the three month period ending May 1998 to \$34,447 in the three month period ending November 1998. Adjustment reports will continue to be provided and the work of case managers monitored regularly. See finding 98-DCS-05 for information concerning the department's accounts receivable software request.

In addition, the department now has case managers assigned to specific foster homes. Each of those case managers has the responsibility of data entry for each child entering or exiting the assigned homes. It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry. A policy has been implemented that requires a 25% review of all case files per quarter per region. This would result in a 100% review over a 12 month period. At the time of the review the data included in the case file is to be checked against the data in ChipFins, CORS, and/or TnKids. This policy has an effective date of 1/11/99.

Finding Number	98-DCS-03
CFDA Number	93.658
Program Name	Foster Care - Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	\$10,163.16

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance (\$487.98), Title IV-E Foster Care (\$10,163.16), Title IV-B (\$776.33), Social Services Block Grant (\$8,313.29), and Title XIX (TennCare) (\$18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number 98-DCS-04
CFDA Number 93.658
Program Name Foster Care - Title IV-E
Federal Agency Department of Health and Human Services
State Agency Department of Children's Services
Grant/Contract No. 9501TN1407 through 9801TN1407
Finding Type Material Weakness
Questioned Costs None

The department continues to issue duplicate payments and overpayments to vendors; \$185,288.52 was returned or refunded voluntarily by vendors

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling \$101,759.63 and returned 305 original checks totaling \$83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% ($\$185,288.52/241,579,013.95$) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

Finding Number	98-DCS-05
CFDA Number	93.658
Program Name	Foster Care - Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Allowable Costs/Cost Principles
Questioned Costs	\$1,225,133.76

Since 1993 Children's Services still fails to collect overpayments; uncollected overpayments totaling at least \$1,225,133.76 are due from foster care and adoption assistance parents, and overpayments to other vendors are not determinable

Finding

As noted in four previous audits, from July 1, 1993, to June 30, 1997, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents, as well as indeterminable vendor overpayments. Management concurred with the prior audit finding and stated that formal written procedures would be drafted; that the remittance advice would be modified to include the current balance due, the department's address, and telephone number; and that letters would be sent to all foster care and adoption assistance parents who owe the department money. Formal written policies and procedures were finalized for adoption assistance and foster care parents; however, no policies and procedures for overpayments were noted for other types of vendors. The remittance advice was updated to include the above-mentioned information and letters were sent to foster care and adoption assistance parents who owed the department money. However, as of June 1998, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,225,133.76, a decrease of only \$49,307.36 (3.9%) since August 1997. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Some procedures have been implemented to help identify overpayments to foster parents. When a child is removed from a foster home, the Department of Children's Services' caseworker is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the caseworker enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or caseworker of the overpayment. However, as noted in finding 13, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

In addition to foster care and adoption assistance parents, vendors were also overpaid (see 98-DCS-04). Many of these overpayments were collected only because the vendor returned the original check or sent a refund to the state, not because the department's system detected these overpayments. The department's method of collecting identified overpayments is to reduce subsequent payments to the vendor until the balance is recovered. However, if the vendor does not receive subsequent payments, the department has no procedure in place to collect the overpayments. The accounts receivable balance for overpayments made to vendors could not be determined because complete information was not available from the department's computer systems.

During the audit period, Children's Services requested to write-off \$287,254.32 of uncollectible foster care overpayments made through the former foster care parents payment system. This request was denied due to the department's failure to follow the Rules of Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." As part of the justification for the write-off, the department stated in the memorandum to Finance and Administration that the vendors no longer had a relationship with the department. However, two of 25 foster care parents tested (8.0%) on the write-off list were active foster care parents. These foster parents had also been active prior to the write-off request and the department did not deduct the amounts owed out of their foster care payments. After further inquiry, auditors were told that no one in the department had checked to see if any of the vendors were active as of the date of the write-off request. The department also stated in their memorandum to Finance and Administration that the vendors did not reply to the letters sent to them. However, during our review, we found that some of the vendors had requested additional information concerning their accounts receivable balance. Therefore, there was additional correspondence with the vendors on file at the department, such as detailed listings of payments and dates. However, there was no evidence in the file to indicate that the department made any attempt to collect the receivable after the additional information was sent to the parent. The rules relative to write-off of accounts receivable specify that at least three documented attempts should be made to collect overdue accounts prior to any decision to write-off the account. Also, a final effort to collect the accounts should be made by the legal staff of the department. Children's Services had only two documented attempts to collect the accounts and the legal staff had made no effort to collect the accounts.

Recommendation

Accounts receivable write-offs should not be requested until all necessary collection attempts, including action by legal staff, are made in accordance with the Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." The Commissioner should determine who is responsible for submitting unverified accounts receivable write-off information to the Department of Finance and Administration and the Comptroller of the Treasury and take the appropriate disciplinary action. The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that staff determine the accounts receivable due from all vendors and take the appropriate measures to collect amounts due. Formal written procedures should be prepared and issued for overpayments made to vendors other than foster care and adoption assistance parents.

Management's Comment

We concur in part. It is true that the department has not developed policies and procedures for the collection of overpayments from vendors other than foster and adoption assistance parents, however, it has made policies and procedures available to all staff for the latter. The department has inherited numerous problems and is trying to address these as time permits while continuing to process daily transactions and handle immediate crises. The department continues to move toward a complete manual of fiscal policies and procedures.

The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies by county adjustments that result in an overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment. The total dollar amount of ChipFins adjustment reports received from January 1998 through January 1999 amounts to approximately \$365,000 in overpayments. During this

period there were on average 1,673 DCS foster parents serving an estimated 3,667 foster children. The total annual DCS foster care payments are about \$17,000,000 at approximately \$1,350,000 monthly. This indicates that the total of the reported ChipFins adjustments received for 12 months is roughly equal to 2% of the annual DCS foster care payments (\$365,000/\$17,000,000).

An accounts receivable software package has been requested for use until the completion of the financial management phase of the TnKids system. This phase of TnKids has been approved and will be started immediately after the eligibility phase is completed which is expected to be completed in 6 months. The ChipFins system for foster care parents payments does show a balance due which is reduced for each pay period (50% of each of the two payments made monthly) by the amount recovered until the amount due from that individual foster parent is indicated to be zero. ChipFins is also used for adoption assistance parents with payments made once a month. Please see finding 98-DCS-02 for the department's efforts to eliminate overpayments to foster care parents by case file reviews.

The Information Resources staff, for fiscal year 1998-1999, developed a monthly report which is being sent to the Director of Regional Services to identify overlapping dates of service for foster care children and residential providers information concerning the location of a child. These reports are being distributed to the Regional Administrators to be reviewed (effective April 1999) and corrections made. Notification of any corrections are to be furnished to the fiscal office. At that point the fiscal division will take action to collect any overpayments.

The write-off issue resulted from a miscommunication between the Fiscal Director and accounting staff. The department will make every effort in the future to be sure instructions are clearly communicated. In addition, regarding the legal issue, the department will determine the action to be taken after the Department of Finance and Administration releases the final draft of its comprehensive accounts receivable policy. The department sees no benefit from developing a policy at this time which may be unnecessary after the issuance of this accounts receivable policy.

Finding Number	98-DCS-06
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children’s Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Subrecipient Monitoring
Questioned Costs	None

Children’s Services’ subrecipient monitoring system is inadequate

Finding

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department’s subrecipients. The contract requires the department to approve corrective action plans submitted by the subrecipient responding to audit findings from the monitoring reports. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists.

Not only has the department not been approving corrective action plans, but in many cases, the department did not even have a copy of the monitoring report on file. Office of Management and Budget Circular A-133 states that a pass-through entity is responsible for monitoring the subrecipient’s activities to provide assurance that the subrecipient administers Federal awards in compliance with Federal requirements. In addition, the circular states that the entity is to ensure that required audits are performed and require the subrecipient to take prompt corrective action on any audit findings. The department did have audit reports on file for subrecipients, but the personnel responsible for subrecipient monitoring did not have access to these reports. If the department does not have the monitoring reports and does not examine audit reports as part of the monitoring process, the department cannot ensure that its subrecipients are administering the federal awards in compliance with federal requirements.

The department could not provide five of 15 (33%) subrecipients’ monitoring reports or corrective action plans for subrecipients monitored during the audit period. In addition, the department could not provide documentation indicating approval of the corrective action plans for eight of 15 subrecipients (53%) monitored during the audit period. Because of the seriousness of the internal control weaknesses associated with subrecipient monitoring, this will be reported as a material weaknesses in the 1998 Tennessee Single Audit report.

Recommendation

The Assistant Commissioner of Programs and the Director of Programs should establish a tracking system to ensure all monitoring reports have been received and are on file at the department. The tracking system should document the name of the person who is responsible for reviewing the report and whether the corrective action plan was submitted by the subrecipient. The tracking system should also document whether the corrective action plan was acceptable and the date the subrecipient was made aware of the acceptance or denial of the corrective plan. There should be periodic reviews of these tracking reports by someone in upper management to ensure that corrective plans are being received and reviewed.

Management's Comment

We concur. The department will take action to insure that monitoring reports are reviewed and that corrective action plans are submitted. Corrective action plans will be reviewed for appropriateness with documented notification made to the subrecipient of acceptance or rejection of the plan. Internal Audit shall obtain from the Department of Finance and Administration a listing of all monitoring activities scheduled and verify that the reports are received by the department.

Finding Number	98-DCS-07
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children’s Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Equipment and Real Property Management
Questioned Costs	\$11,977,359.95

The department did not understand or chose to disregard federal guidelines when purchasing equipment with Foster Care Title IV-E funds, which has resulted in \$11,977,359 in questioned costs

Finding

During the years 1996 through 1998, the department did not comply with federal regulations when purchasing equipment to develop a Statewide Automated Child Welfare Information Systems (SACWIS) under Title IV-E Foster Care. Because of the many noted instances of noncompliance with the Title IV-E SACWIS regulations, it appears management either does not have a clear understanding of the regulations, or has chosen to disregard them. The seriousness of this weakness in internal controls will be reported as a material weakness in the 1998 Tennessee Single Audit Report. Because of the material noncompliance by the department with the SACWIS regulations, the report on compliance for Foster Care, Title IV-E will be qualified, and a total of \$11,977,359 will be included in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report. The material instances of noncompliance by the department and the questioned costs are described below:

- a. When the department purchased equipment for its SACWIS system, it violated federal regulations and circumvented state purchasing procedures. In addition, as discussed in finding 3, the department did not have any internal controls in place during the purchasing and installation of the equipment. Because of the many federal noncompliance issues noted, the entire amount spent by the department for the purchase of the equipment, which totaled \$11,013,744, will be questioned. The specific noncompliance issues are as follows:
 - The department did not cost allocate the use of the equipment at the time the equipment was purchased. The cost/benefit analysis included in the department’s Advanced Planning Document, which was presented to the U.S. Department of Health and Human Services, misrepresented how the equipment purchased with Title IV-E funds was being used. The cost/benefit analysis shows that the program share of costs was 100% Title IV-E. However, from the outset the equipment was being used to support programs other than Titles IV-E and IV-B, such as Social Services Block Grant and juvenile justice activities. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-OISM-001, page 10, section B states:

Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under Title IV-B or IV-E may be charged to Title IV-E. Equipment which is acquired to support other individuals or programs must either be direct-charged to the other agency or program, or

allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under Titles IV-E or IV-B....

- Equipment purchased with Title IV-E funds was being used at the youth development centers. However, because children in these centers are not eligible for Titles IV-E or IV-B, equipment purchased with Title IV-E funds should not be used at these locations. Based on our review of the Property of the State of Tennessee System (POST) and information related to the equipment's funding, there are 327 equipment items purchased with Title IV-E funds at the youth development centers.
- The department purchased equipment up to two years in advance of its use to take advantage of an enhanced federal financial participation rate. When the equipment was purchased, it was stored in a warehouse prior to being installed across the state. As of December 1998, there was still some equipment stored at the warehouse which had been purchased between June and September 1996. This equipment has been stored in the warehouse for over two years without being used by the department. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-O1SM-001, page 4, states in part:

While we realize that many States have expressed great interest in acquiring hardware immediately to take better advantage of enhanced funding, it is not our intent to approve enhanced FFP for early installation of equipment that will not be utilized until the application software is complete, not to provide enhanced funding solely for the installation of local office automation (hardware and software), which would normally be funded only at the regular FFP rate.

Based on discussions with warehouse management, the equipment consisted of approximately 23 personal computers, 12 computer monitors, four laptops, five laser printers and numerous mouse pads and surge protectors. Warehouse management has stated that some of these items, approximately three personal computers and all of the laptops, were labeled as "bad," because they would not operate properly. However, the probability that these items can be returned to the vendor after such a long period is highly unlikely. Some of the equipment sent to the Community Services Agencies was sitting idle in boxes for up to a year and a half. Management stated this was because TnKids was not functional. Management also has stated that the equipment was purchased early for training purposes. However, it is our opinion that equipment stored in warehouses or sitting in boxes is clearly not being used for training purposes.

- b. The department requested the purchase of 19 computer servers by the Department of Finance and Administration, Office for Information Resources (OIR). Thirteen of the 19 servers (68.42%) were purchased early and were not in use during the audit period. This would be in violation of the ACF Action Transmittal No. ACF-O1SM-001, page 4 as quoted above. Although the servers were purchased by OIR, the department is charged depreciation costs over a five-year period. The department charged the depreciation to Title IV-E. The total questioned cost for this depreciation is \$514,163.

- c. The department charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate. The difference between the enhanced rate (75%) and the regular rate (50%) resulted in \$449,452.61 in questioned costs. These expenditures consisted of maintenance and data processing, supplies, operational supplies, and professional and administrative services. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-OISM-001, page 8, states in part:

The State may not claim enhanced funding under Title IV-E for activities related to the following:

- Equipment repair or maintenance;
- Operational costs incurred prior to the completion of statewide operation;
- Workstation supplies;
- Contractor and State resources to support the system's operation once post-pilot conversion begins (e.g. help desk activities, system enhancements, warranty work, or maintenance agreements); and
- Administrative costs, which are otherwise considered operational, such as those related to office space, office equipment, telephones, furniture, or supplies.

The department's inability or unwillingness to follow federal guidelines could result in lost federal revenue to the state or could result in the state having to refund federal funds that were spent inappropriately.

In addition to the problems noted in this finding, management did not have adequate internal controls during the purchase and installation of the equipment, which resulted in the department not having an accurate accounting of the equipment. These problems are discussed in more detail in finding 98-DCS-08.

Recommendation

The Commissioner should ensure that all noncompliance with federal regulations is corrected and any inappropriately used federal funds are returned immediately and should determine who is responsible for these significant violations of federal regulations and take appropriate disciplinary action.

The Assistant Commissioner of Fiscal and Information Systems and the Director of Information Systems should become familiar with SACWIS regulations and ensure that these regulations are followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. A cost allocation plan should be developed to properly reflect the usage of the equipment, and no further purchases should be made without the intent to comply with federal requirements for cost allocation. Once a cost allocation plan has been developed, the department should implement the plan retroactively and refund the federal government for the misuse of Title IV-E funds. The amount of depreciation costs charged to the department for the unused servers should be refunded to the federal government. The department should return to the federal government the difference between the regular federal financial participation rate and the funds that were inappropriately drawn at the enhanced federal financial participation rate. In the future, the department should not purchase equipment until it can be installed and placed into operation in a timely manner.

Management's Comment

We concur in part. First, the issue stating, "the department did not have any internal controls in place during the purchasing and installation of equipment," and the issue of equipment located at the Local Government Data Processing warehouse in Columbia, Tennessee have been addressed in the response to finding 98-DCS-08. In addition, the department concurs with the part of the finding that relates to the equipment stored at the CSAs for a year and a half without being placed in use. The equipment was Sun Servers which were purchased for training and which the department is currently using for that purpose.

Second, the Advanced Planning Document submitted to the federal government, though approved, was in error when indicating how costs for equipment were to be allocated. An updated cost allocation plan for the equipment is being developed that will more accurately reflect the intent of the programs functions and, therefore, the use of equipment. Subsequent to the audit, discussions with the federal government's representatives, as part of the current cost allocation methodology being developed to address this issue, have indicated to the department that programs benefiting from the development of TnKids could be funded by Title IV-E and SACWIS as long as the benefit was secondary to the primary functionality developed for SACWIS requirements. After federal approval, any future Title IV-E funded computer purchases will have to be consistent with the cost allocation plan currently being developed and a retroactive approval will be requested for the initial purchases of equipment.

Third, through approvals of the submitted Advanced Planning Documents, federal staff approved the "early roll-out" of Title IV-E funded equipment contingent on the approval of a final implementation APD for the entire SACWIS project. The purpose for the early roll-out was not to capture soon-to-expire enhanced funding, but rather to allow nearly 3100 proposed DCS staff throughout the state the opportunity to become accustomed to new computer technology and to employ office automation support as a part of the new departments early experience. The statement in the finding that some of this equipment was ultimately to be used for TnKids training is accurate. That equipment is now being used as the department begins its "initial" TnKids training in the pilot Southeast Region, however, the department concurs that this equipment shouldn't have been purchased two years in advance.

Fourth, the finding that the department "charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate" is accurate. All system costs were analyzed by information resources staff and submitted to the fiscal unit by a schedule indicating the cost center and grant to be used to record each transaction in STARS. The environment which allowed this type of accounting responsibility to be assigned to the information systems unit has been addressed. The department is currently developing policies and procedures to address situations throughout the department that should require participation by the fiscal unit in decision making situations. Costs incorrectly charged to the enhanced rate have been identified and will be adjusted on the required federal reports and on STARS.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

Finding Number	98-DCS-08
CFDA Number	93.658
Program Name	Foster Care -- Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Equipment and Real Property Management
Questioned Costs	None

The department circumvented state purchasing policies and procedures and had no internal controls in place during the purchasing and installation of equipment purchased with federal funds

Finding

State purchasing procedures were circumvented when the department purchased \$11,013,744.31 of equipment with federal funds. See finding 98-DCS-07 for federal noncompliance issues related to this purchase. In addition, the department had no internal controls in place during the purchasing and installation of the equipment. Since 1996, the department has purchased equipment with Title IV-E funds. The majority of this equipment was purchased during fiscal years ended June 30, 1998, and June 30, 1997.

Review of purchase orders and corresponding invoices shows that equipment was ordered and/or received before purchase orders were generated or approved. For six purchase orders, which totaled \$6,083,532.07, vendor invoices showed that the equipment was ordered before the purchase orders were approved. Additionally, one vendor invoice showed that equipment was ordered and received by the department before the purchase order was approved.

At the time of the purchase, department personnel did not record essential information in the Property of the State of Tennessee system (POST), which identifies the equipment as federally funded, due to lack of training and proper supervision. Grant information (i.e., grant number and percentage of federal funds) was not entered into POST. The department must be able to distinguish between state and federally funded property, because federally funded property has restrictions on both the usage and disposal of property. By not entering the funding information into POST, the department could not identify specific items purchased with Title IV-E funds. Therefore, the department had no way of determining whether it was in compliance with federal regulations. In certain instances, the federal regulations require reimbursement for disposing of equipment acquired with federal funds. Without an accurate accounting for the equipment's funding, the department has no way to ensure that the federal awarding agency would be appropriately reimbursed when this equipment is disposed.

As of December 1998, the department was unable to provide a listing of equipment purchased with Title IV-E funds. The department attempted on two occasions to identify equipment purchased with Title IV-E funds. However, by performing testwork and analytical procedures, each listing was found to contain significant errors. We performed analytical procedures on all purchase orders identified as funded with Title IV-E. Nine of 36 purchase orders (25%) did not have the correct number of items entered on POST when compared with the number of equipment items ordered (purchase order) and received on the corresponding invoice. At least five items entered on POST referenced the wrong purchase order. Part of this problem results from the department's failure to follow proper purchasing procedures.

The equipment was stored in a warehouse before it was installed in offices. Some equipment purchased between June and September 1996 was still stored at the warehouse in December 1998. This equipment has been stored in the warehouse for over two years without being used by the department. When the equipment was installed across the state, the locations of the equipment were not entered into POST.

Information Resources staff did not consistently provide documentation to Administrative Services staff when new computer equipment was installed or when old equipment was moved from one location to another. Also, no procedures were in place to ensure that Administrative Services staff followed up when new computer equipment was purchased to ensure that detailed information was provided on installation of the equipment. This failure in internal controls, caused by lack of communication between department personnel, prevented personnel from updating the location of Title IV-E funded equipment in POST. The other weaknesses noted were:

- Forty-nine of 184 locations (26.63%) were incorrect on POST for equipment at the central office. In addition, fifty-six of 80 locations (70%) were incorrect on POST for equipment at the Community Services Agencies. These error rates were noted after the department was given a period of four months to correct the location errors.
- Nine of 80 equipment items tested (11.25%) did not have the correct description on POST.
- Seven of 184 equipment items (3.8%) costing more than \$1,000 were incorrectly charged to object code 099, which is Sensitive Minor Equipment costing \$1,000 or less.
- Eight duplicate tag numbers were found while testing equipment at the central office.

Therefore, the department does not have an accurate accounting for the \$11,013,744.31 in equipment and its location. Because of the seriousness of these weaknesses, a material weakness in internal control will be reported in the 1998 Tennessee Single Audit report.

Recommendation

The Commissioner should determine why the Assistant Commissioner of Fiscal and Information Systems is not familiar with state purchasing policies and, therefore, could not ensure these policies were followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. Controls should be put into place to ensure that state purchasing procedures are followed and that all essential information is input into POST. POST should be corrected to include all equipment items purchased, grant number, and the federal financial participation rate for each item purchased with federal funds, and the correct locations for each item.

Management's Comment

We concur in part. The department concurs that purchasing rules were "unintentionally" violated regarding the issuance of purchase orders prior to ordering and receipt of equipment during the formative months of the department.

All equipment was appropriately acquired through contracts established by the Department of General Services by utilization of the statewide contracts for procurement of computer equipment. The

equipment was acquired through the Department of Finance and Administration's equipment revolving fund (Fund 15). Vendors were notified of the department's intent to purchase certain equipment so that availability by the vendor could be maintained. In a few instances, the vendor, on its own initiative, shipped the equipment prior to receipt of the purchase order. This occurrence was not due to the department's request for delivery prior to the receipt by the vendor of a purchase order.

During this process the Division of Information Resources had assumed the role of managing the movement of computer equipment. As information was received from Information Resources the POST system was updated to reflect location changes. As time progressed, it became evident these controls were not adequate. Movement of computer equipment was not being properly documented, nor forwarded to Administrative Services for entry into POST, and follow-up efforts by Administrative Services were inadequate. A major effort has been undertaken by the department to implement controls to completely change the department's inventory control system and prevent problems from recurring. This effort includes the correction of computer information which created discrepancies on the POST system, controls to assure that future purchases will be properly processed, and that funding information will be entered at the time the purchase order is generated.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

Finding Number	98-DCS-09
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children’s Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Cash Management
Questioned Costs	None

The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children’s Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration’s Policy 20, “Recording of Federal Grant Expenditures and Revenues,” Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department’s two major federal programs, the following was noted:

- Title IV-E - All 60 expenditures tested were charged to the federal grant from three to 46 days after the initial transaction was paid with state dollars.
- SSBG - Twenty-two of 40 expenditure items tested (55%) were charged to the federal grant from ten to 61 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state’s cash.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve its cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TN KIDS has no implementation timeline, the department should implement changes in their funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding 98-DCS-10 for additional information.

Finding Number	98-DCS-10
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children’s Services
Grant/Contract No.	9501TN1401 through 9501TN1401
Finding Type	Material Weakness
Questioned Costs	None

Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department’s Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TN KIDS is working. Since there is no timetable for the financial management portion of the TN KIDS System, controls should be incorporated into the existing system and processes. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TN KIDS System are met. The financial management portion of TN KIDS should be made a high priority in the implementation of the TN KIDS System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding 98-DCS-05 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.

Finding Number	98-DCS-11
CFDA Number	93.658
Program Name	Foster Care -- Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Eligibility
Questioned Costs	\$276.13

Controls over disbursements were still weak

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated that senior management agreed to designate staff to identify DCS employees who will approve claims and invoices before they are submitted to the fiscal office. In the areas of residential and detention centers claims using Title IV-E funding, the approval process appears to be in place. However, designated approvers were not put in place for claims for foster care and child protective services funded with the Social Services Block Grant (SSBG) and Title IV-E. Problems included lack of supporting documentation, incorrect rates used, and insufficient approvals. Examples:

- Lack of Supporting Documentation - Children's Services does not maintain copies of foster care and adoption assistance contracts in the central office. Instead, the central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments to vendors. Through testwork performed for the SSBG and Title IV-E sections, it was determined that the information in ChipFins is not always reliable or accurate. (See finding 98-DCS-02)

For SSBG, twelve of 40 expenditures tested (30%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. Five did not have valid foster care contracts, and for seven the foster care contract did not provide for therapeutic bonus fees paid by the department. These payments, totaling \$2,130.07, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998. For the Title IV-E federal program, various problems were noted, such as:

- incorrect rates used to determine payment,
- payments not reimbursable under Title IV-E,
- incorrect number of days of service being paid to vendors, and
- payment not reasonable based on placement and goods or services received by the child.

These payments, totaling \$825.13, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

- Insufficient Approval - Neither caseworker nor other knowledgeable party verified that goods or services had been provided to children before payments were made, and underlying records were not checked to ensure they reflect appropriate activities and allowable costs. This means that the department's central office paid vendor invoices with no knowledge that the invoices reflect actual expenditures. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report. For all 40 of the SSBG expenditures tested and 55 of 60 Title IV-E expenditures tested (91.6%), the receipt of goods or services was not verified, and underlying records were not checked to ensure they reflect allowable costs.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for goods or services that were not received.

Recommendation

The Commissioner should immediately determine why the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services did not take appropriate measures to strengthen the controls over the processing of all disbursements as assured in the department's responses to the last audit. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins information is reliable and accurate. The Director of Fiscal Services should also ensure that proper supervisory approvals are obtained to minimize the likelihood of mistakes in processing transactions. The internal audit unit should continue to review the department's payment process to determine what changes need to be made to ensure that proper documentation exists for every payment.

Management's Comment

We concur. Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with SSBG. As those foster care contracts are modified, fiscal staff are working to ensure they are correctly funded. A departmental policy has been developed for the review of all foster care contracts within a 12 month period which will also help facilitate the determination of contractual problems. This latter process will be occurring in conjunction with the SSBG process.

The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment. After the April 1999 date, the Director of Fiscal Services is to be notified by payables staff of any claims for payment without a signed approval. Information concerning the lack of the required designated approver's signature will be accumulated and reported to management for appropriate corrective action.

Use of a standard claim process to insure that the rates paid agree with the rates contained in the designated contract was started in May of 1997 with improvements being made as determined necessary. We will continue to develop more adequate methods of controls for other contract payments.

In addition, please see the response to finding 98-DCS-02 for additional controls put in place for foster care contracts.

Finding Number	98-DCS-02
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness, Eligibility
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in four previous audits, which covered the period July 1, 1993, to June 30, 1997, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

As stated in management's comments to the prior finding, the Children's Plan Financial Information System (ChipFins) database is now updated by the caseworkers when a child's foster care placement changes. However, when caseworkers do not enter placement changes in ChipFins before the next benefit payment cut-off date, payments will continue to be made to foster parents or vendors. If caseworkers do not enter the placement changes timely, they must submit change-in-status adjustment forms to the central office to correct the over- or under- payments. As indicated in management's comments to the prior audit finding, the department began preparing monthly reports which show the adjustment forms received, and the amount of the changes by caseworker. Starting in January 1998, the report was provided to central program staff as well as to the Regional Administrators for their review to determine why the changes are not being made timely by the caseworkers.

Adjustment forms for the time period January through June 1998 show that 615 adjustments were made, totaling \$248,822.40 in overpayments and \$19,792.73 in underpayments. The department paid the total amount of underpayments to the vendors. However, Children's Services could not determine, nor was it willing to take the time to calculate, the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete. The inability of fiscal staff to determine collections made against overpayments shows a complete lack of concern for proper accountability and disregard of monies owed the state.

Since the department started preparing and reviewing the monthly reports, the number of adjustments has decreased, but it appears that there is still a problem with status changes not being made timely by the caseworker.

Furthermore, this monthly report of adjustments shows when status changes were made late, but does nothing to determine if status changes should have been made, but were not. A review of case files by caseworkers' supervisors would be necessary to ensure that the caseworkers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure caseworkers enter child placement information in ChipFins timely. These procedures should include a requirement that the caseworkers' immediate supervisor examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against caseworkers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur, however, the department has made significant efforts to address this issue. Starting in March 1998 the Fiscal Division started tracking the number of status changes submitted to that office from field staff. This process was initiated after Internal Audit did an initial analysis for the period of January through September of 1997. This initial analysis was given to the Regional Administrators to indicate problem counties where this issue needed to be addressed more specifically. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address any indicated problems. Internal Audit has prepared three month trend analyses which are reported to the Director of Regional Services and the Deputy Commissioner. These three month analyses indicate that the status changes submitted to the Fiscal Division have dropped from \$81,700 in the three month period ending May 1998 to \$34,447 in the three month period ending November 1998. Adjustment reports will continue to be provided and the work of case managers monitored regularly. See finding 98-DCS-05 for information concerning the department's accounts receivable software request.

In addition, the department now has case managers assigned to specific foster homes. Each of those case managers has the responsibility of data entry for each child entering or exiting the assigned homes. It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry. A policy has been implemented that requires a 25% review of all case files per quarter per region. This would result in a 100% review over a 12 month period. At the time of the review the data included in the case file is to be checked against the data in ChipFins, CORS, and/or TnKids. This policy has an effective date of January 11, 1999.

Finding Number 98-DCS-03
CFDA Number 93.659
Program Name Adoption Assistance
Federal Agency Department of Health and Human Services
State Agency Department of Children's Services
Grant/Contract No. 9001TN1407 through 9801TN1407
Finding Type Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs \$487.98

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance (\$487.98), Title IV-E Foster Care (\$10,163.16), Title IV-B (\$776.33), Social Services Block Grant (\$8,313.29), and Title XIX (TennCare) (\$18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number 98-DCS-04
CFDA Number 93.659
Program Name Adoption Assistance
Federal Agency Department of Health and Human Services
State Agency Department of Children's Services
Grant/Contract No. 9001TN1407 through 9801TN1407
Finding Type Material Weakness
Questioned Costs None

**The department continues to issue duplicate payments and overpayments to vendors;
\$185,288.52 was returned or refunded voluntarily by vendors**

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling \$101,759.63 and returned 305 original checks totaling \$83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% ($\$185,288.52/241,579,013.95$) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

Finding Number	98-DCS-09
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness, Cash Management
Questioned Costs	None

The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

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Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve its cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TN KIDS has no implementation timeline, the department should implement changes in their funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding 98-DCS-10 for additional information.

Finding Number	98-DCS-10
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness
Questioned Costs	None

Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TN KIDS is working. Since there is no timetable for the financial management portion of the TN KIDS System, controls should be incorporated into the existing system and processes. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TN KIDS System are met. The financial management portion of TN KIDS should be made a high priority in the implementation of the TN KIDS System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding 98-DCS-05 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.