TENNESSEE COMPTROLLER OF THE TREASURY

PERFORMANCE AUDIT REPORT

Department of Finance and Administration

November 2019

Justin P. Wilson
Comptroller of the Treasury

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

November 1, 2019

The Honorable Randy McNally
Speaker of the Senate
The Honorable Cameron Sexton
Speaker of the House of Representatives
The Honorable Kerry Roberts, Chair
Senate Committee on Government Operations
The Honorable Martin Daniel, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, TN 37243
and
The Honorable Stuart McWhorter, Commissioner
Department of Finance and Administration
312 Rosa L. Parks Avenue
Nashville, TN 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of Finance and Administration for the period September 1, 2015, through June 30, 2019. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated.*

Our audit disclosed certain findings, which are detailed in the Audit Conclusions section of this report. Management of the Department of Finance and Administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Department of Finance and Administration should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

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Division of State Audit

Department of Finance and Administration

Performance Audit
November 2019

Our mission is to make government work better.

AUDIT HIGHLIGHTS

The Department of Finance and Administration's Mission
To provide sound stewardship of state assets through good business practices and great customer service.

We have audited the Department of Finance and Administration for the period September 1, 2015, through June 30, 2019. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

Scheduled Termination Date:

June 30, 2020

- the Budget Division;
- the Division of Strategic Technology Solutions;
- the Division of Benefits Administration;
- the Division of Accounts;
- grant management and subrecipient monitoring;
- background checks;
- public records management;
- information systems access;
- *Tennessee Code Annotated*; and
- staff turnover.

KEY CONCLUSIONS

FINDINGS

- The department has not yet corrected weaknesses with STS billings (page 41).
- Human Resources Office management did not perform employee background checks as required or prioritize updating the department's background check policy and procedures to stay current with the needs of the Division of Accounts and Strategic Technology Solutions (page 64).

- The Division of Accounts has not reviewed its records disposition authorizations following the 2013 request from the Public Records Commission, and several divisions have not implemented the recommendations from the Records Management Division's assessment report (page 70).
- The department did not provide adequate internal controls in two specific areas (page 73).

OBSERVATIONS

The following topics are included in this report because of their effect on the operations of the Department of Finance and Administration and the citizens of Tennessee:

- The Division of Budget needs to improve transparency and provide more clarity on the state's budget process for all stakeholders (page 23).
- Due to restrictive statutory language, professional regulatory and health-related boards cannot include Statutory Reserve Funds in their self-sufficiency calculations and are treated individually when they actually function as a group for accounting purposes (page 31).
- The state's internal service funds contain amounts that are potentially available during the state's budget process (page 33).
- Management of the Division of Strategic Technology Solutions did not establish interdepartmental agreements with state agencies for workstation support (page 47).
- The Enterprise Portfolio Investment Committee should establish written criteria for evaluating projects and document its decisions (page 48).
- Office of Criminal Justice Programs management should ensure that staff document their assessments of agencies' solvency before awarding grants and should submit updated monitoring plans to the Central Procurement Office when necessary (page 60).

MATTERS FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to

- consider amending regulatory boards' statutory reserve language to allow for the use of reserve funds to cover operating deficits (page 33);
- consider the state's internal service funds balances when making annual appropriations (page 36);
- require state agencies to obtain assistance from the Division of Strategic Technology Solutions and clarify its responsibilities regarding system implementations (page 48); and
- ensure that the sections of *Tennessee Code Annotated* related to the department reflect its current responsibilities and use current terminology (page 75).

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INTRODUCTION

Audit Authority

This performance audit of the Department of Finance and Administration was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-241, the department is scheduled to terminate June 30, 2020. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the department should be continued, restructured, or terminated.

Background

The Department of Finance and Administration's organizational chart is on page 3.

In 1959, the Tennessee General Assembly created the Department of Finance and Administration to consolidate the financial and monetary matters of state government into one cabinet-level department. The department's divisions are listed below.

The Division of Accounts provides the controller function for state government. It records the accounting transactions for all state agencies; prepares tax filings with the Internal Revenue Service; and generates and sends agency payments to vendors and travel reimbursements to employees. Staff within the division prepare the state's annual financial statements and management accounting reports, and the payroll staff generates payroll and W-2 forms for all state employees. The division monitors the state's compliance with the federal Cash Management Improvement Act and establishes statewide accounting policies and practices. To provide efficiency and consistency, the division also establishes and manages contracts for the statewide commerce activities across state agencies.

The Division of Administration handles internal audit, human resources, talent management, and billing functions. The division's offices of Criminal Justice Programs and Volunteer Tennessee also provide grant administration services to public and private agencies.

The Division of Benefits Administration serves three basic groups of employees by managing their state-provided insurance benefits:

- The state plan is available to state government and higher education employees.
- The local education plan is available to local school systems that choose to participate in the plan.
- The local government plan is available to local city and county governments and to certain quasi-governmental agencies that choose to participate.

In addition to insurance coverages, Benefits Administration also administers an employee assistance program and a wellness program. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their mental and physical health.

The Division of Budget serves as the statewide budgeting and strategic planning office for the Governor and the Commissioner of Finance and Administration. Each year the Division of Budget is responsible for preparing the Governor's Recommended Budget; establishing a work program and monitoring expenditures and revenue collections; and directing agencies' strategic planning and program performance reporting. The division is also responsible for providing financial data analysis as required by the Governor or the Commissioner; coordinating reviews of agency financial management; investigating duplication of work among agencies; and facilitating plans for better management and more efficient and economical operations.

The Division of Strategic Technology Solutions serves as the state's central information processing organization and as a computer service bureau to state departments. It provides planning, resources, execution, and coordination in managing the information systems needs of executive-branch departments, as well as selective services across all branches of state government. Division personnel serve as staff to the Information Systems Council and provide technical direction, services, and infrastructure to the state.

The Division of TennCare[1] includes TennCare Medicaid, which is responsible for administering Tennessee's Medicaid waiver program. TennCare provides physical health care, mental health care, and long-term services and supports primarily to low-income children, pregnant women, caretakers of Medicaid-eligible children, older adults, and individuals who have a disability. The division also administers CoverKids, which provides health care to children and pregnant women who do not qualify for TennCare Medicaid and whose household income is 250% or more below the federal poverty level.

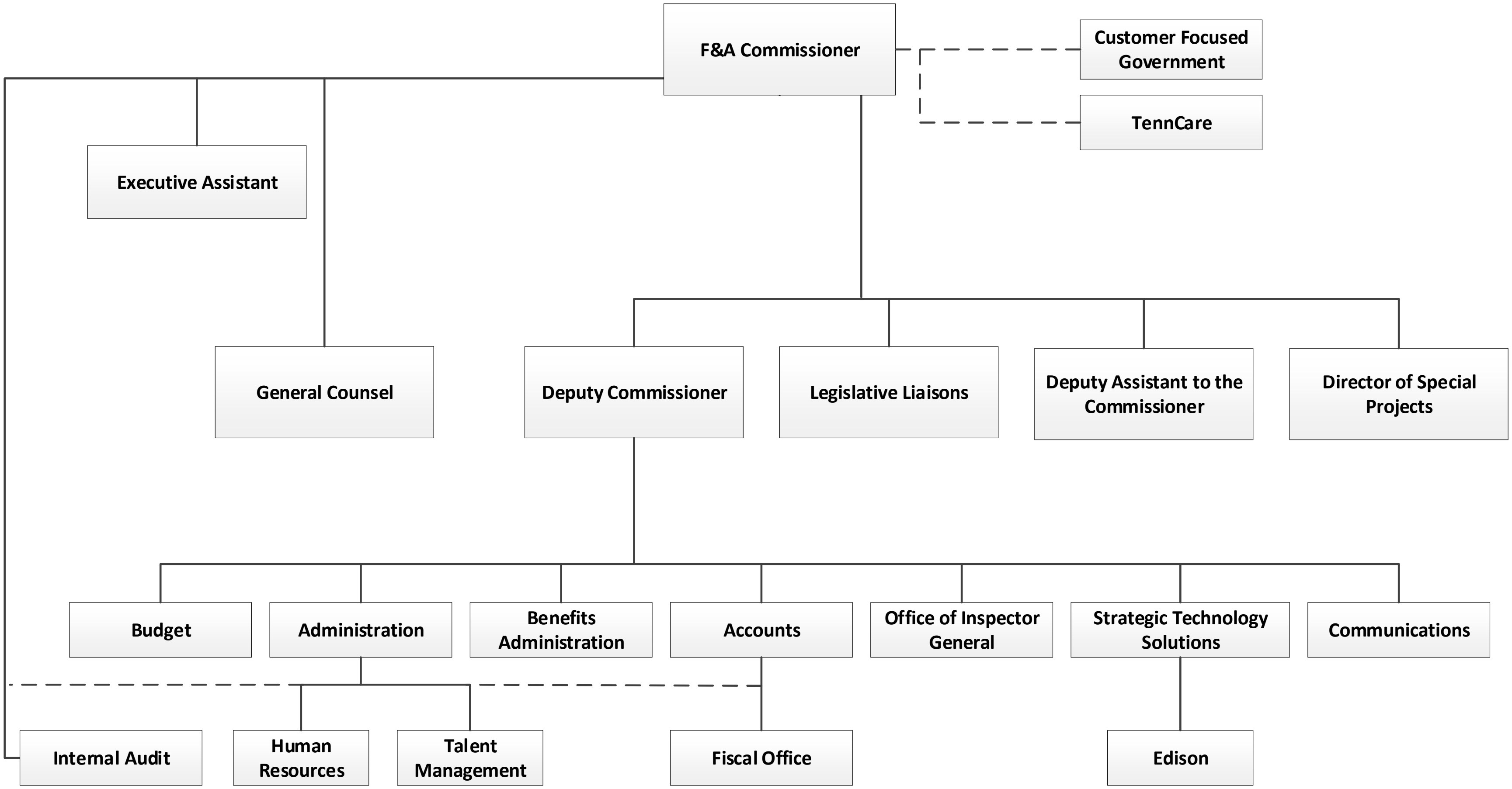
The Office of Customer Focused Government[2] concentrates on improving business for internal and external customers; it helps state agencies become more effective and efficient, reducing operation costs and resulting in better services.

The Office of Inspector General[2] investigates individuals who commit or attempt to commit fraud and abuse of TennCare programs, as well as other violations of state criminal law related to the operation of TennCare. It also seeks restitution for monies lost due to fraud and abuse.

See **Appendix 1** on page 80 for a list of the department's business unit codes in Edison.

[1] An audit of the Division of TennCare was published in December 2018. The division is not scheduled to terminate until June 30, 2022, and was not included in the scope of this audit.
[2] This audit does not include any objectives related to the Office of the Customer Focused Government or the Office of Inspector General.

Department of Finance and Administration
Organizational Chart
February 2019



Source: Department of Finance and Administration management.

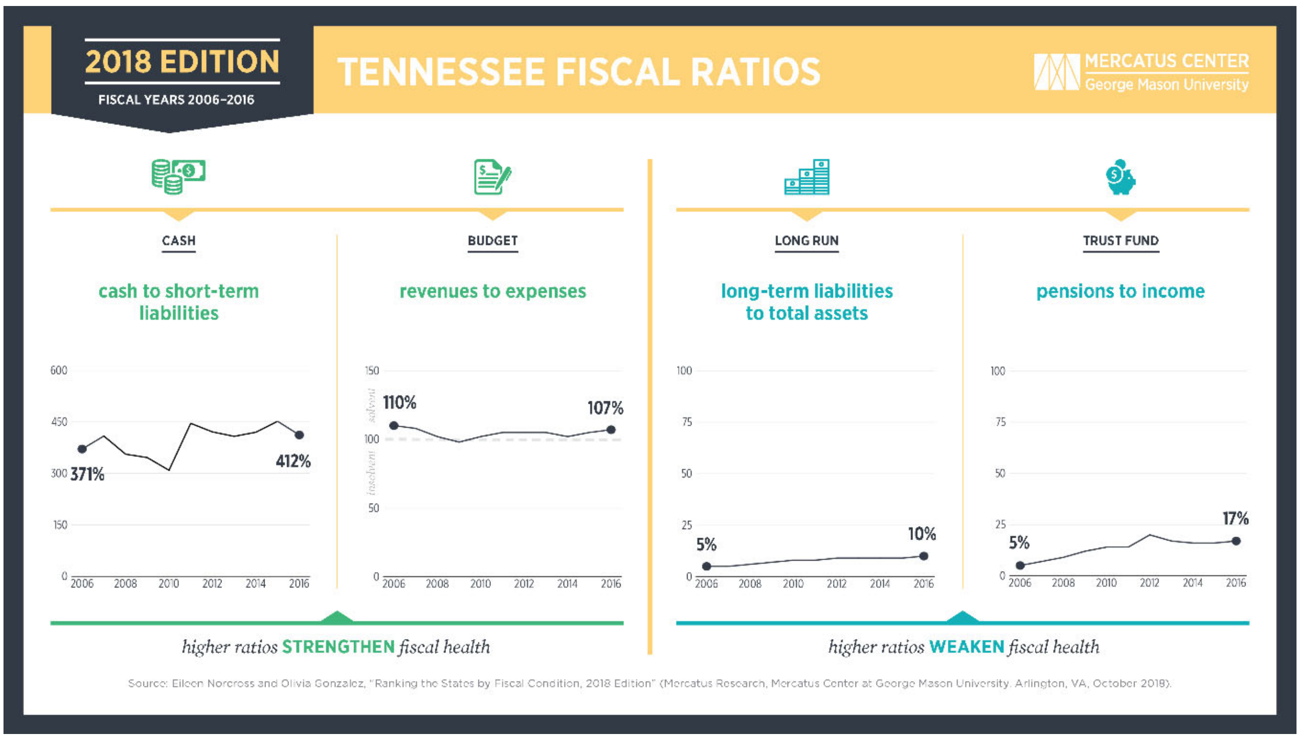
STATE OF TENNESSEE'S FINANCIAL HEALTH

As the stewards of the state's assets, the Department of Finance of Administration, along with the Department of Treasury, the Comptroller of the Treasury, the General Assembly, and many other agencies, has helped the state earn a reputation of fiscal excellence.

Fiscal Excellence

According to *U.S. News & World Report's* "Best States 2019" publication, Tennessee was ranked as the most fiscally stable of all 50 states. In October 2018, Mercatus Research at George Mason University released a report that ranked Tennessee as the third most fiscally healthy state (see **Figure 1**).

Figure 1
Mercatus Fiscal Ratios for Tennessee



Source: https://www.mercatus.org/system/files/norcross-fiscal-rankings-2018-mercatus-infographics-v1_tn.png.

Bond Ratings

The state's bonds have continued to follow an upward trend, and they currently receive the highest possible rating by the top three credit-rating agencies (see **Table 1**).

Table 1
Tennessee's Credit Ratings
July 1, 2015, Through June 30, 2018

Fiscal Year-end	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
2015	AAA	Aaa	AA+
2016	AAA	Aaa	AAA
2017	AAA	Aaa	AAA
2018	AAA	Aaa	AAA

Source: Tennessee's *Comprehensive Annual Financial Report* (CAFR) for fiscal years ending 2015, 2016, 2017, and 2018.

State Solvency

Mercatus Research at George Mason University released *Ranking the States by Fiscal Condition* in 2017 and rated states by, among other measures, long-run solvency, service-level solvency, trust fund solvency, and overall fiscal condition. Mercatus Research defines these terms as follows:

- long-run solvency – the state's ability to meet long-term spending commitments;
- service-level solvency – how much fiscal "slack" a state has with which to increase spending, should citizens demand more services;
- trust fund solvency – includes total unfunded pension obligations and other post-employment benefits; and
- overall fiscal condition – a combination of fiscal solvency measures.

See **Table 2** for Tennessee's rankings.

Table 2
Tennessee's Ranking for Fiscal Year Ended 2015

Measure	Tennessee's Ranking
Long-Run Solvency	3
Service-Level Solvency	9
Trust Fund Solvency	2
Overall Fiscal Condition	5

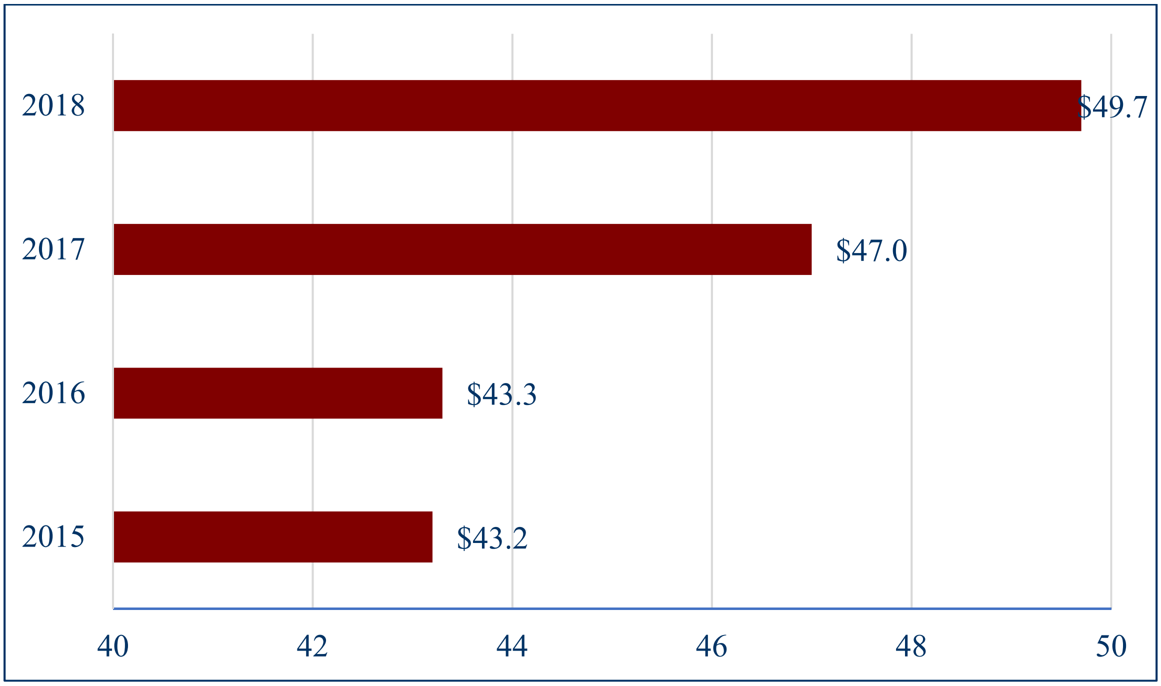
Source: Mercatus Research at George Mason University's 2017 report, *Ranking the States by Fiscal Condition.*

Pension Fund

According to the Pew Charitable Trusts and the Tax Foundation, the balance in Tennessee's pension fund in fiscal year 2016 amounted to 94% of the costs needed to pay for state public employees' promised benefits, making the state's pension the third best funded in the nation. For fiscal year 2017, the state's pension funding increased to 96%. With the state's population totaling 6.7 million, however, the 4% deficit equates to $253 that every man, woman, and child would have to pay to fully fund the state's promised pension benefits.

See **Table 3** for the monetary amount of the state's pension trust fund by fiscal year.

Table 3
Net Position of Pension Trust Fund in Billions



Source: CAFRs for fiscal years ending 2015, 2016, 2017, and 2018.

Awards

According to the Government Finance Officers Association (GFOA) website,[3] the GFOA awards the Certificate of Achievement for Excellence in Financial Reporting Program "to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure." GFOA has awarded the state this certificate for its 2015 through 2018 CAFRs.

Rainy Day Fund

The revenue fluctuation reserve, commonly referred to as the Rainy Day Fund, allows services to be maintained when revenue growth is slower than estimated in the budget, mainly during economic downturns. In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be 5% of the estimated state tax revenues to be allocated

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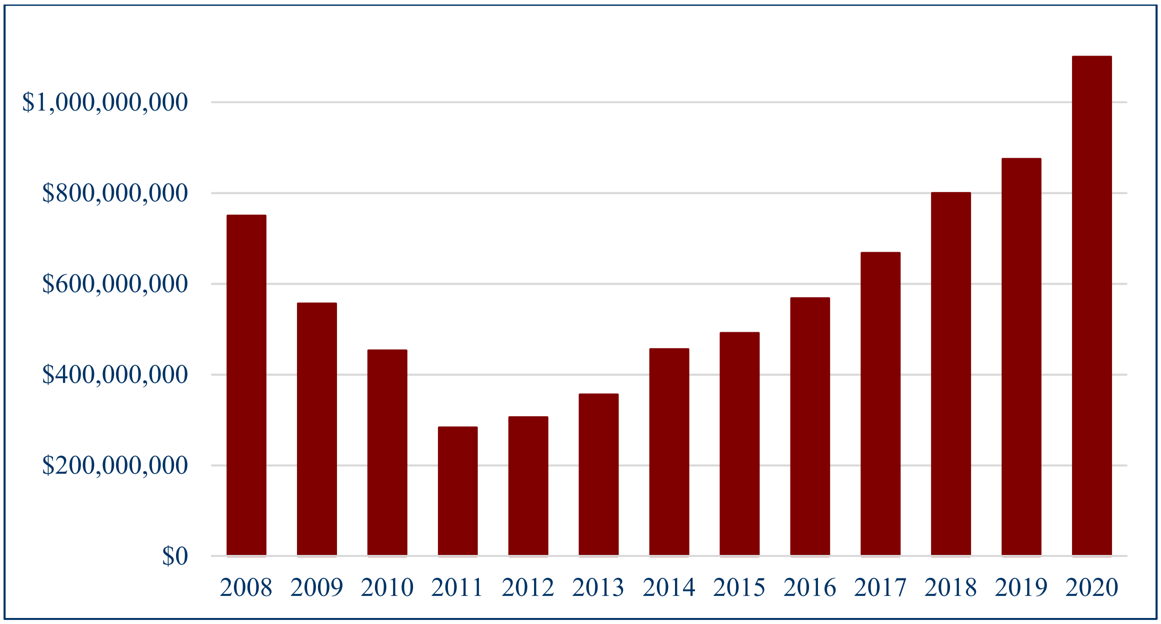
[3] Source: https://www.gfoa.org/award-programs/certificate-achievement-excellence-financial-reporting-program-cafr-program.

to the General Fund and Education Trust Fund. This goal was increased to 8% effective July 1, 2013. The revenue fluctuation reserve was $800 million on June 30, 2018. According to the 2018 *Comprehensive Annual Financial Report,* the Rainy Day Fund is estimated to be $875 million on June 30, 2019, including an additional deposit of $14 million. A recommended deposit to the fund of $225 million in fiscal year 2019 will have the total revenue fluctuation reserve at $1.1 billion on June 30, 2020 (see **Table 4**).

Table 4
Rainy Day Fund Balance*



*The fiscal year 2020 amount of $1.1 billion is a projection.
Source: Department of Finance and Administration management.

The department's Director of Budget made the following points to us about the state's recession readiness:

- The Rainy Day Fund is not the only reserve the state would use to offset a revenue drop. At a minimum, the state would also have access to the TennCare reserve;[4] together, the Rainy Day Fund and the TennCare reserve will total a projected $1.4 billion at the end of fiscal year 2020. The state additionally has access to other reserves and would be able to transfer some of them to the General Fund to help cover any shortfalls. These other reserves total well over $1 billion.
- The Director of Budget noted that the state is well-positioned to endure a mild recession and is probably in a better position than most states to endure a 2008-like recession. Based on his knowledge of other states' operations, he does not believe any state can work through a 2008-like recession without making significant adjustments to its budget (such as reductions; reserve-taking; possible tax or fee increases; and fund transfers).

[4] We discuss other reserve funds in more detail in the **Budget Division** section of our report.

Fiscal Excellence

Through the collaborative efforts of state leadership, the state is ranked highly for its fiscal management. The Department of Finance and Administration has played a vital role in achieving fiscal excellence. The *U.S. News & World Report's* publication "Best States 2019" ranks Tennessee as the most fiscally stable state.

AUDIT SCOPE

We have audited the Department of Finance and Administration for the period September 1, 2015, through June 30, 2019. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

- the Budget Division;
- the Division of Strategic Technology Solutions;
- the Division of Benefits Administration;
- the Division of Accounts;
- grant management and subrecipient monitoring;
- background checks;
- public records management;
- information systems access;
- *Tennessee Code Annotated*; and
- staff turnover.

Department management is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Although our sample results provide reasonable bases for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in the individual sections of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

REPORT OF ACTIONS TAKEN ON PRIOR AUDIT FINDINGS

Section 8-4-109(c), *Tennessee Code Annotated,* requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The prior audit report was dated December 2015 and contained 11 findings. The Department of Finance and Administration filed its report with the Comptroller of the Treasury on June 15, 2016. We conducted a follow-up of the prior audit findings as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Finance and Administration resolved the 11 previous audit findings.

ACHIEVEMENTS

Legislation passed on April 7, 2016, created the position of an executive internal auditor with authority over the internal audit staff and internal audit functions of executive-branch agencies. Initially, former Governor Haslam assigned the responsibilities of the new position to the Commissioner of the Department of Finance and Administration. On August 30, 2019, the department's Deputy Commissioner, who had served as the executive internal auditor on the Commissioner's behalf, announced that a full-time appointment had been made to the position.

Based on our audit inquiries, management took the following actions towards fulfilling the responsibilities of the executive internal auditor position established in Section 4-4-124, *Tennessee Code Annotated*:

- <u>Develop comprehensive internal audit standards for executive-branch agencies</u> – In February 2017 the executive internal auditor, in collaboration with executive-branch internal audit directors, adopted the *International Standards for the Professional Practice of Internal Auditing* by the Institute of Internal Auditors, with an option for agencies to instead use the *Generally Accepted Government Auditing Standards* issued by the U.S. Government Accountability Office if necessary.

- Provide best practices training for internal audit staff – The executive internal auditor identified training opportunities available to each agency, which included topics on audit standards, internal control, and enterprise risk management. In addition, the executive internal auditor hosted quarterly meetings for agencies' internal auditors.

- Provide peer review for internal audit staff – The executive internal auditor developed a schedule for peer reviews, also known as external quality assessments, beginning in summer 2019 and with the goal of each applicable state agency having been reviewed by 2021.

- Review and approve internal audit plans – The executive internal auditor reviewed and approved agency internal audit plans for the last two years, 2017 and 2018, as of the date of our inquiries.

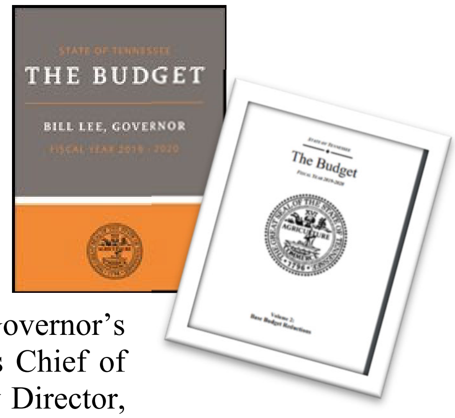
- Coordinate internal auditors on statewide issues – The executive internal auditor developed standard work outcomes for each agency; hosted quarterly roundtable meetings; created advisory groups with internal audit directors from various state agencies; developed a template for agencies to use in developing their Internal Audit Charters; and implemented a standardized audit plan format.

Budget Division

Tennessee Comptroller of the Treasury

Budget Division

The Department of Finance and Administration's Division of Budget serves as the Governor's budgeting and strategic planning office. Each year, the division's 32 staff members complete several budgetary tasks, which include, but are not limited to, preparing the Governor's Recommended Budget document, monitoring state agencies' expenditures and revenues, and establishing work programs.[5] While the division is responsible for completing most budgetary tasks, the Governor also consults with members of the Governor's Administration (including, but not limited to, the Governor's Chief of Staff, General Counsel, Chief Operating Officer, Chief Policy Director, and Communications Director) when making final budgetary decisions.

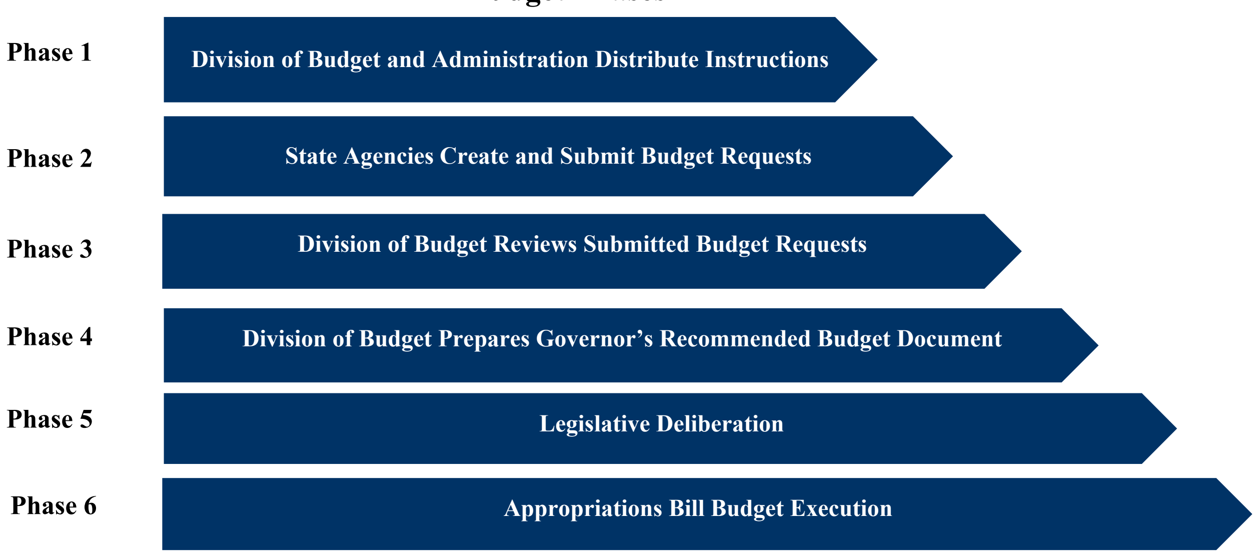


To facilitate an understanding of some of the state's budgetary procedures, we begin this section by providing a high-level overview of the state's budget process.

Standard Budget Process

The state's budget process is very complex and layered. Therefore, we have separated the process into six phases in **Exhibit 1** and described each phase below that.

Exhibit 1
Budget Phases



Source: Auditor prepared based on a summary of various documents related to the budget process.

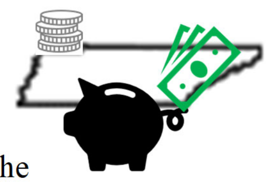
[5] According to the department's website, a work program is a detailed spending and receipt plan for every program in state government.

Phase 1 –Division of Budget and Administration Distribute Instructions

Each fiscal year,[6] the Governor and the Governor's Administration begin the budget process cycle by establishing budgetary savings that each agency should strive to achieve. The purpose of budgetary savings is to ensure that the state remains fiscally conservative and continues to find ways to improve the efficiency of our state agencies. (See the summary of the State of Tennessee's financial health beginning on page 4.)

The Administration creates savings through two procedures: budget reductions and reversion targets.

Budget Reductions



A budget reduction is a proposed percentage by which a state agency must try to reduce its base budget,[7] through eliminating or reducing operational costs or decreasing program funding. The purpose of budget reductions is to encourage agencies to look at their base budgets and come up with operational efficiencies and savings. The percentage varies each year based on the strength of the economy, outlook on future growth, and requirements for new funding.

The Division of Budget is responsible for recommending a target budget reduction percentage for each agency, and the Governor and the Governor's Administration make the final decision on the reduction percentage. We present a list of budget reduction percentages from fiscal years 2016 to 2020 in **Table 5**.

Table 5
Department of Finance and Administration
Budget Reduction Percentages for Fiscal Years 2016 to 2020

Fiscal Year	Budget Reduction Percentage
2016 (July 1, 2015, to June 30, 2016)	7.0%
2017 (July 1, 2016, to June 30, 2017)	3.5%
2018 (July 1, 2017, to June 30, 2018)	2.0%
2019 (July 1, 2018, to June 30, 2019)	2.5%
2020 (July 1, 2019, to June 30, 2020)	2.0%

*Source: State agency budget request instruction letters for fiscal years 2016 to 2020.

Once the Governor and Administration finalize the budget reduction percentage, the Division of Budget instructs the state agencies to make budget reduction plans. The plans must focus on the methods an agency will use to reduce recurring state dollars[8] and the impact that the reductions will have on the agency's operations and programs.

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[6] Tennessee's fiscal year is July 1 through June 30 of the following year.
[7] An agency's base budget is the funding amount it operated on in the prior year.
[8] Recurring state dollars are the amount of money the state allocates to an agency on an ongoing basis for continuing operations.

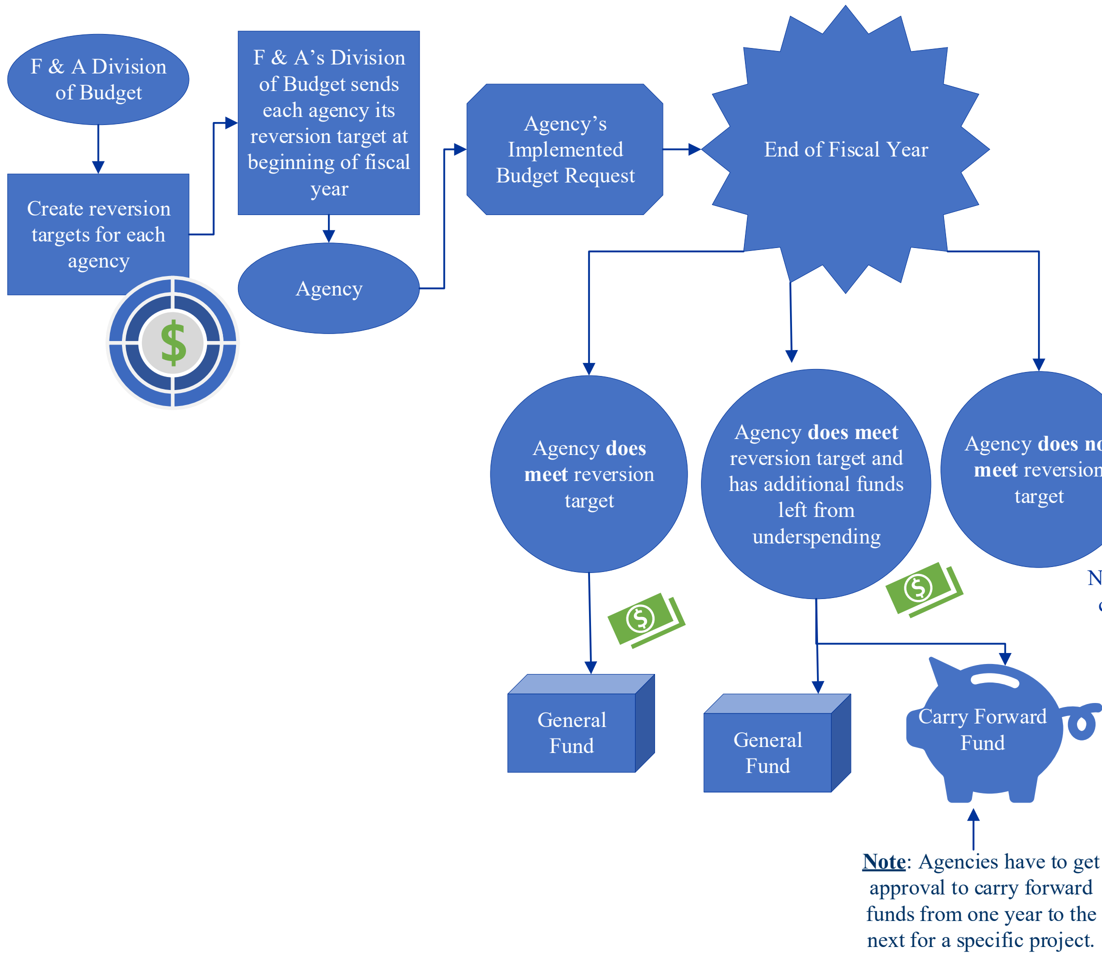
After agencies complete and submit their budget reduction plans, the Division of Budget reviews each plan. The Governor and the Administration may accept or deny the plans based on their impact and feasibility.

Reversion Targets

In addition to receiving a budget reduction percentage, the Division of Budget also asks the state agencies to meet a reversion target. Reversion targets are over-appropriated amounts[9] assigned to agencies at the beginning of the fiscal year. Each agency is expected to meet its reversion target and return those funds to the state's General Fund[10] at the end of the fiscal year through normal attrition and natural underspending; however, if an agency does not meet its reversion target amount, there is no consequence. Division staff stated that they do not use a standard reversion target methodology; instead, agency fiscal staff and the Governor's Administration collaborate to calculate reversion targets based on an analysis of historical trends, institutional knowledge within the Division of Budget, the state's economic environment, and consideration of prior years' reversion amounts. The ultimate decision for the reversion targets resides with the Finance and Administration Commissioner. (See **Exhibit 2** on page 14.)

[9] Over-appropriations occur when the state allocates more money to agencies than they anticipate needing. By giving this money at the beginning of the fiscal year and anticipating its return at the end of the year, this process develops a savings plan for the state.
[10] State appropriations are dispersed from the General Fund.

Exhibit 2
Reversion Target Process



Source: Auditors created based on discussion with Division of Budget personnel, as well as personnel from other state agencies.

According to the Division of Budget, not all state agencies are issued a reversion target. State agencies that do not receive state appropriations, or have a reversion amount that would be negligible due to their size, do not have reversion targets. See **Appendix 4** on page 84 for a list of reversion targets for fiscal years 2016 through 2018.

Each August, after the Governor's Administration and the Division of Budget have established budget reductions and reversion targets for applicable state agencies, the Division of Budget provides each state agency with instructions that describe how agencies should construct their budget requests[11] for the upcoming fiscal year.

[11] Agencies submit a budget request to request state funds to cover operational costs for the next fiscal year.

Phase 2 – State Agencies Create and Submit Budget Requests

After receipt of the budget request instructions, agencies construct their requests by using their prior year's revenues and expenditures to estimate their expenditures and revenues for the upcoming fiscal year. They also submit requests for additional funding to address current or new initiatives. After the agencies are informed of the budget reduction percentage, they develop a reduction plan to meet the percentage by cutting operational costs.

After agencies finalize their budget requests, the agencies upload their requests into the Budget Entry, Analysis, and Reporting System (BEARS) computer system for the Division of Budget to review. Agencies have until October 1 of each year to complete their budget requests.

Phase 3 – Division of Budget Reviews Submitted Budget Requests

Once agencies upload their budget requests into the BEARS system, the Division of Budget's Budget Analysts examine each agency's revenues and expenditures to determine if the requests are reasonable. If division staff observe any differences between an agency's previous year's revenues and expenditures and the estimated revenues and expenditures submitted in its new budget request, a Budget Analyst will meet with the agency to determine the reason for the changes. In addition, the Budget Analyst will conduct research to determine the appropriateness of the changes, as well as the feasibility and impact of the agency's proposed budget reduction plan. The Governor's Administration either accepts or denies the budget reduction plan based on those determinations. If the plan is accepted, the agency would decrease costs according to the proposed plan to meet the reduction.

After the Budget Analyst reviews an agency's budget request, several levels of management within the Division of Budget perform a review, including Budget Coordinators, the Assistant Director, the Budget Director, and the Finance and Administration Commissioner. During this time, the division's upper management and the Commissioner meet with agencies to discuss their budget requests in order to develop information for the Governor to review.

Phase 4 – Division of Budget Prepares Governor's Recommended Budget Document

Cabinet agencies[12] present their budget requests to the Governor during formal budget hearings that occur in November and December of each year.

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[12] Cabinet agencies include major state departments and agencies, with Commissioners appointed by the Governor, such as Agriculture, Children's Services, Commerce and Insurance, Correction, Economic and Community Development, Education, Environment and Conservation, Finance and Administration, Health, Human Services, Labor and Workforce, Mental Health and Substance Abuse Services, Revenue, Safety and Homeland Security, TennCare, Transportation, and Veterans Services. Non-cabinet agencies follow the same process, except they do not have a public budget hearing where they present their budget requests to the Governor.

Upon reviewing agencies' budget requests and attending budget hearings, the Governor, in consultation with various members of the Administration, the Finance and Administration Commissioner, and the Division of Budget upper management, will approve or make changes to agencies' budget requests. These changes can occur at the Governor's discretion and for various reasons. For example, the Governor may alter budget requests to provide funding to areas and programs that are related to the Governor's priorities. (See callout box on the right.)

Governor Bill Lee's Priorities

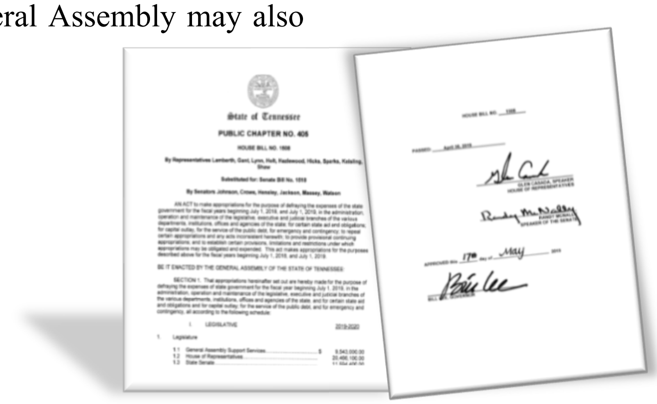
- **Creating Jobs and Growing Our Economy**
- **Education**
- **Safe Neighborhoods for Every Community**
- **A Healthier Tennessee**
- **Supporting Our Rural Communities**
- **Growing the Agriculture Economy**
- **Stopping the Opioid Epidemic**
- **Transportation and Infrastructure**
- **Open and Responsive Government**

Source: https://transition.billlee.com/priorities/.

After the agencies' budget requests are finalized, they are placed in a document called the Governor's Recommended Budget. The Recommended Budget document is then transmitted to the General Assembly, typically[13] on the day of the Governor's State of the State Address, which occurs in January or February each year.

Phase 5 – Legislative Deliberation

Following the State of the State Address, the General Assembly reviews the Governor's Recommended Budget document and conducts hearings with agencies to obtain more details about their budget requests. The General Assembly may also alter agencies' requests and add their own amendments.[14]



Once the hearings are completed, the Governor's Recommended Budget document and any adjustments made by the General Assembly are compiled into the Appropriations Bill. In April or May of each year, the General Assembly votes to approve the proposed Appropriations Bill. When approved, the Governor signs the bill into law.

[13] According to Section 9-4-5105 (b), *Tennessee Code Annotated,* the Governor shall transmit the Recommended Budget document "to the General Assembly prior to February 1, each year unless the General Assembly, by joint resolution, authorizes transmittal by a later date."

[14] The legislature can make any changes or amendments to the Governor's Recommended Budget. The Governor cannot reject a legislative change once it is approved; however, the Governor does have budget veto authority, meaning he or she can reduce or disapprove the sum of money appropriated. Although this authority exists, it is rarely used. The last veto occurred in 2001 by then Governor Sundquist. The legislature may override the Governor's veto with a constitutional majority (50 favorable votes in the House of Representatives and 17 favorable votes in the Senate).

Phase 6 – Appropriations Bill Budget Execution

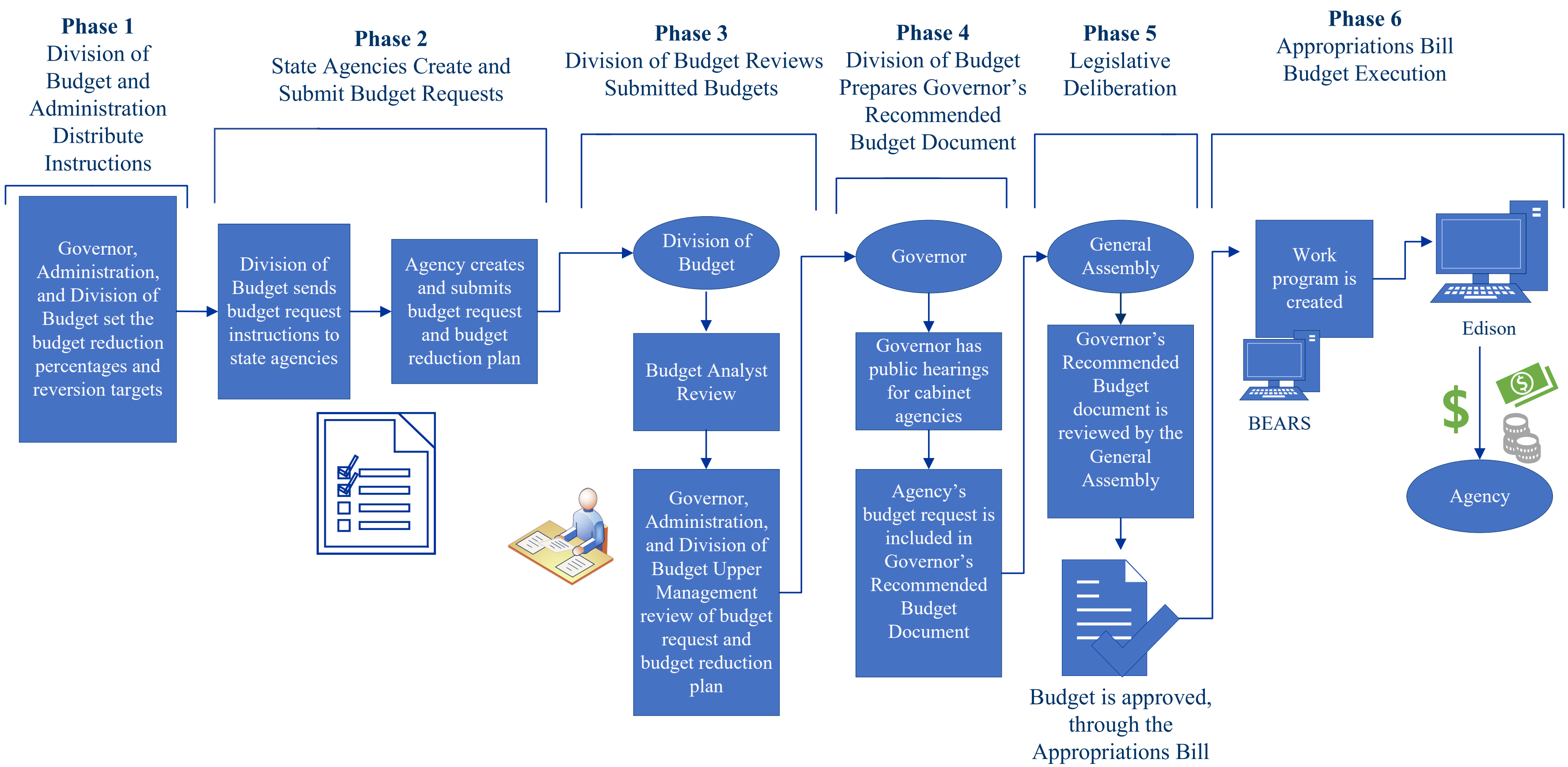
After the Appropriations Bill is signed into law, the Division of Budget works to reconcile the Governor's Recommended Budget to the Appropriations Bill and constructs a work program in BEARS for each state agency. Each work program details the amount of money each agency will receive and the purposes for which the money can be used. The work program consists of specific, line-item allotments[15] and provides spending authority to the agency.

Upon creating the work program in BEARS, the Division of Budget transfers it into Edison, the state's enterprise resource management system. The agencies can begin using funds on July 1, which is the beginning of the fiscal year.

Exhibit 3 on the following page portrays all six phases of the budget process.

[15] Line-item allotments are expenses, broken down into categories such as payroll salaries, benefits, operational travel, and maintenance.

Exhibit 3
Tennessee's Budget Process



Note: Throughout the calendar year, the Division of Budget and agencies work on multiple fiscal year budget cycles. For example, at the close of one fiscal year (June 30) and the beginning of the following fiscal year (July 1), the Division of Budget and state agencies are working on closing the prior year's budget, enacting the current year's budget, and preparing for the next year's budget.
Source: Auditors created based on discussion with Division of Budget personnel, as well as personnel from other state agencies.

Other Budget Steps

Other aspects of the budget process do not occur during each budget process cycle and do not impact all state agencies. Below, we provide clarity on some of these aspects that impact state agencies' budget process.

State Agency Restricted Funds

There are two types of state agency restricted funds: Statutory Reserve Funds and Carryforward Funds. Although the funds are similar due to their restrictive nature, the state finances them differently (see **Exhibit 4**).

Statutory Reserve Funds are funds that are established by state statute. These funds are financed by dedicated revenue streams that come from various fees, donations, and other forms of revenue. Statutory Reserve Funds are restricted in use by the language in state statute, and the Appropriations Bill and can roll over from one fiscal year to the next.

To use funds from a Statutory Reserve Fund, agencies must receive approval from the Division of Budget. If an agency cannot show that it plans to use the reserve funds according to the requirements in statute or the Appropriation Bill, the Division of Budget will deny the request. Although the process provides that the Division of Budget can deny agencies' requests to use Statutory Reserve Funds, division personnel reported to us that they are unaware of any instances of the division denying a request.

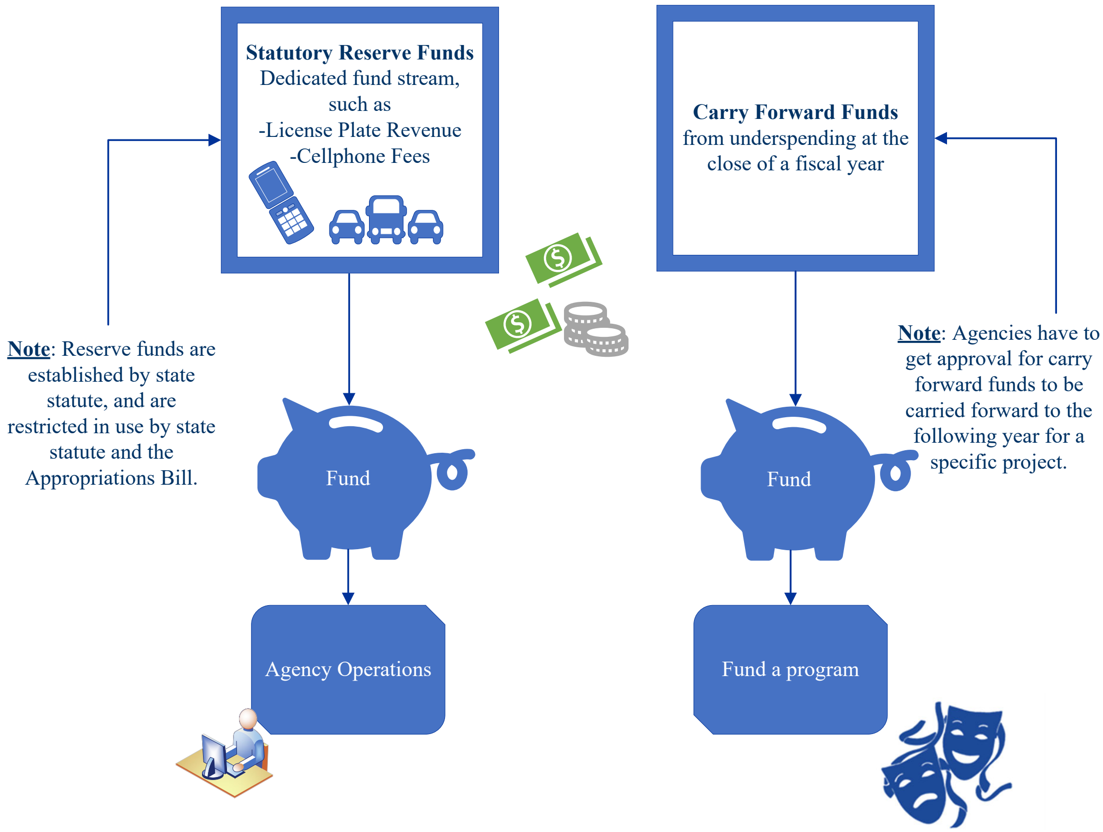
Statutory Reserve Fund Example

Section 7-86-128, *Tennessee Code Annotated*, requires all cell phone providers to collect a monthly 911 surcharge fee from consumers. Money collected from these fees goes to the 911 Emergency Communications Fund, which provides funding to emergency communications districts across the state and covers operational expenses for the state's Emergency Communications Board.

Carryforward Funds are appropriated funds that an agency has left over at the end of a fiscal year. Provided they have authority, agencies can submit a request to the Commissioner of Finance and Administration to keep these funds to use for a specific purpose in the future. If the division denies the request, the funds revert to the state's General Fund.

The balances of both the state's Statutory Reserve Funds and Carryforward Funds are maintained in Edison. State agencies and the Division of Budget can view the balance of all funds at any time.

Exhibit 4
Statutory Reserve Funds Versus Carryforward Funds



Source: Auditors created based on discussion with Division of Budget personnel, as well as personnel from other state agencies.

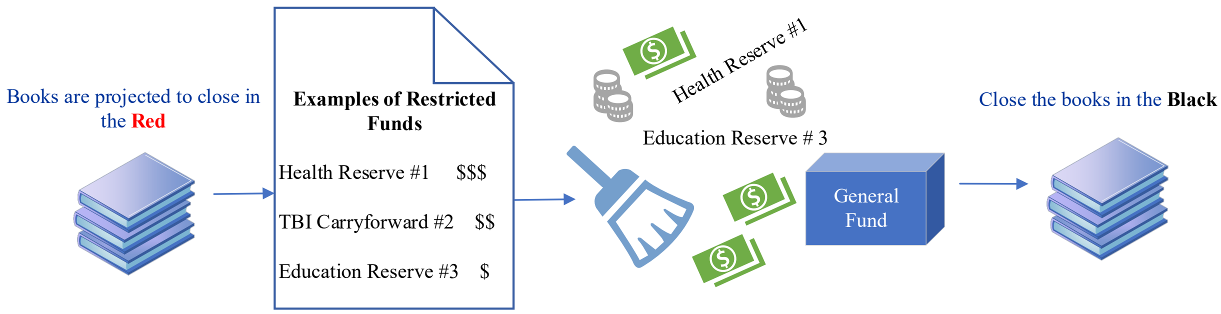
Reserve Sweeps

When the state needs additional funds to close out the fiscal year, Section 4-3-1016, *Tennessee Code Annotated*, gives the Department of Finance and Administration the authority to use state agency Statutory Reserve Funds and Carryforward Funds to close the state's books. In the department's official documents, this process is called reserve-taking; however, it is commonly known as a reserve sweep. For the purposes of this audit, we will refer to the process as a reserve sweep. (See **Exhibit 5**.)

The Division of Budget is responsible for recommending which restricted funds to sweep. The division most commonly selects or proposes the funds to sweep by determining which funds are not obligated for contracts or grants and can close the state's deficit with the least amount of accounting moves; however, the Governor ultimately decides which funds to sweep.

The state's most recent sweep occurred during fiscal year 2014. A list of all Statutory Reserve Funds and Carryforward Funds that were swept in 2014 can be found in **Appendix 5** on page 89.

Exhibit 5
Reserve Sweep Process[16,17]



Source: Auditors created based on discussion with Division of Budget personnel, as well as personnel from other state agencies.

After the Governor makes the final recommendation about which funds to sweep, the General Assembly must vote and approve for the funds to be swept.

<u>Internal Service Funds</u>

As explained in the state's *Comprehensive Annual Financial Report,* internal service funds "are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis." The state currently operates 14 internal service funds:

1. Strategic Technology Solutions;
2. Risk Management;
3. Motor Vehicle Management;
4. General Services Printing;
5. Facilities Revolving Fund;
6. Employee Group Insurance Fund;
7. Postal Services;
8. Purchasing;
9. Warehousing and Distribution;
10. Records Management;
11. Human Resources;
12. Division of Accounts;
13. TRICOR (Tennessee Rehabilitative Initiation in Correction); and
14. Edison.

[16] Closing books "in the red" occurs when the state does not have a balanced budget and closing the fiscal year would result in a deficit. Additional funds from a reserve sweep may be needed to close the state's books.
[17] Closing books "in the black" occurs when the state has a balanced budget and no additional funds are needed to avoid a deficit at the end of the fiscal year.

See **Appendix 6** on page 90 for a description of each internal service fund.

Federal guidelines establish the maximum allowable reserve balance for internal service funds. According to Title 2, *Code of Federal Regulations*, Part 200, Appendix V,

> Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 calendar days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 calendar days may be approved by the cognizant agency for indirect costs in exceptional cases.

Since our Single Audit team monitors internal service funds for compliance with federal requirements, we did not cover this area as part of our performance audit work.

Audit Results

1. Audit Objective: Did the division thoroughly document the state's budget process to ensure legislators, state agencies, and the public fully understand the process?

Conclusion: The division has not developed complete and clear documentation describing the state's budget process, which would improve understanding, communication, and instructions for all stakeholders who use the budget process for fiscal decision making and/or for preparing requests under the Governor's Recommended Budget document and ultimately the final Appropriations Bill. See **Observations 1** and **2**.

2. Audit Objective: Did the department ensure that internal service funds operated on a cost-reimbursement basis and maintained only reasonable balances?

Conclusion: Department management provided us with explanations about the majority of the unrestricted balances in the state's internal service funds. However, as of June 30, 2018,[18] the state's internal service funds contain over $53 million that is potentially available for consideration during the state's budget process. See **Observation 3**.

Methodology to Achieve Objectives

To achieve our objectives related to the budget process, we obtained and reviewed the Governor' Recommended Budget documents for fiscal years 2016 through 2020; Appropriations Bills for fiscal years 2016 through 2020; revenues and expenditures from the Edison system for fiscal years 2016 through 2018; budget request instructions provided to state agencies; and documentation the Division of Budget provides to stakeholders regarding the budget process.

[18] Fiscal year 2018 is the latest year for which the state has audited financial statements available.

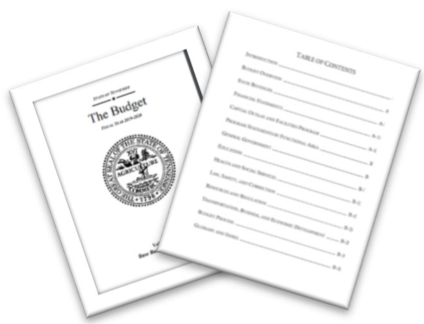
We also interviewed the Department of Finance and Administration's Commissioner, Director of Budget, Assistant Director of Budget, Director of Statewide Accounting, Director of the Division of Accounts, and three Budget Coordinators within the Division of Budget.

In addition, we contacted the House and Senate Directors from the General Assembly's Office of Legislative Budget Analysis and interviewed fiscal officers from six state agencies.

We discussed internal service funds with key personnel; reviewed budget documents and *Comprehensive Annual Financial Report* documents; and examined reconciliations and other calculations given to us.

Observation 1 – The Division of Budget needs to improve transparency and provide more clarity on the state's budget process for all stakeholders

We asked management to provide a complete description of the state's budgetary process in order to ensure that the process provided all stakeholders with sufficient and accurate information to make fiscally sound budgetary decisions at both the entity and state levels, and to ensure all entities had consistent instructions to access available funds intended to support their missions.



Fiscal Year 2020 Budget

- **534 pages**
- **$16.9 billion in state appropriations**
- **Supports 50 departments and agencies**

No In-depth Description of the Entire Budget Process Has Been Developed

In response, the division provided a high-level, four-page summary of the budget process and a notebook created for the Administration[19] transition team members. Neither document, however, described all the steps of the state's budget process.

As we will detail in the following sections of our observation, the absence of clear, comprehensive budget process documentation resulted in a lack of understanding amongst the Division of Budget staff. Additionally, we found that legislative members have requested more timely information to facilitate better decision making; thus, an in-depth and detailed document

[19] For the purposes of this observation, "Administration" refers to the Governor and the Governor's Office staff.

describing the entire budget process would provide members of the General Assembly with a clear understanding of the process.

We found that state agency fiscal directors and the legislative stakeholders **did not have a complete understanding of**

- how to request access to use Statutory Reserve Funds;
- who makes the decisions to allow access to the funds;
- what criteria impacts how decisions are made to allow use of the funds;
- who decides to sweep the Statutory Reserve Funds when the funds are needed to close the state's books;
- how the Division of Budget calculates reversion targets;
- given the absence of instructions, how state agencies should request supplemental appropriations from the General Assembly;
- how fiscal officers reconcile revenues and expenditures reported in the Governor's Recommended Budget document with the amounts in Edison; and
- the correct use of budget process terminology—stakeholders involved in the budget process sometimes used inaccurate terminology, such as referring to Statutory Reserve Funds as Carryforward Funds and vice versa, which could create misunderstanding or confusion for decision makers.

During our review of materials related to the budget process, as well as during multiple conversations with management and staff from the department's Division of Budget and Division of Accounts, fiscal officers from state agencies, and the Senate and House Directors of the Office of Legislative Budget Analysis, we determined that these various stakeholders did not have a complete understanding of the state's budget process. Clearer communication and transparency will allow stakeholders to make better fiscal decisions. Specifically, we found different interpretations of internal processes within department staff, a lack of knowledge by state agency fiscal officers, and delayed budgetary information for legislative stakeholders.

We describe these conditions in further detail below.

Statutory Reserve Funds

Submitting a Request to Spend Reserve Funds

When we interviewed various Division of Budget staff about the process for state agencies to request the use of reserve funds, we heard multiple inconsistencies:

- Confusion On How to Request Use of Reserve Funds – Division of Budget staff described two separate ways for state agencies to submit a reserve request. One is upon submission of the yearly budget request into the Budget Entry, Analysis, and Reporting

(BEARS) system, and the other is in a separate letter transmitted to the division during the remainder of the year. Division of Budget staff were split, though, as to whether requests could come in either way or if requests could only be submitted with the budget request or in a separate letter. Although there is a lack of clarity regarding how to submit a reserve fund request, we did not find that any agencies experienced issues during the request process.

- Confusion On How Reserve Fund Requests Are Approved – Division staff additionally disagreed on the reserve request approval process. Some stated that if a reserve fund request comes in with the yearly budget request submission, the division may comment on the appropriateness of the request considering the applicable statutory language, but the use of reserves is ultimately approved or denied by the Administration in the Governor's Recommended Budget. Within the Division of Budget, this review process would involve Budget Analysts and Coordinators, as well as the Assistant Director and the Director. Other division staff informed us, though, that if requests come in via a separate letter during the remainder of the year, the decision for approval or disapproval lies at the Budget Analyst or Coordinator level with no review from the Assistant Director or the Director.

Without sufficient direction, state agencies may not have been aware of the appropriate process to request the use of reserve funds. Additionally, an inadequate review process could lead to the division's improper approval or denial of requests.

Another concern we identified is that the division does not maintain a centralized list of reserve requests that come into the office from state agencies. Maintaining a list would allow the division to monitor and analyze reserve fund use requests.

Using Reserve Funds

While performing our review, we found that language in the Appropriations Bill differs from state statute regarding how state agencies use Statutory Reserve Funds. The Appropriations Bill contains language regarding sum-sufficient appropriations,[20] which provides additional permission for an agency to use its reserve funds when state appropriations are not sufficient.

In our attempt to gain an understanding of how the state's fiscal officers handled reserve

Example of Language Difference in State Statute and Appropriations Bill

State Statute:

The health-related boards' reserves may be used for expenses incurred in implementing and enforcing the board's area of regulation.

Appropriations Bill:

The health-related boards' reserves may be used for data processing systems development, which appears to expand the usage allowed in existing statute.

[20] Sum-sufficient appropriations language is included in the Appropriations Bill passed by the legislature and provides additional permission for an agency to use its reserve funds when state appropriations are not sufficient to fulfill an agency's needs. The intent of sum-sufficient language is to cover the difference between what was appropriated and what is needed, especially in the event of an emergency. These funds are requested when additional funds are needed, but agencies should try to avoid making requests, if possible. Source: Fiscal year 2019 Appropriations Bill.

funds, we found that some agency fiscal staff stated that the Appropriations Bill sum-sufficient language was additional guidance (over and above language stated in statute) on how reserve funds may be used. In contrast, however, we found that Finance and Administration staff said that even though the Appropriations Bill is passed by the legislature, it does not supersede the authority of statute and, as such, could or should not be interpreted as guidance beyond what already exists in statute.

Both interpretations may have a basis in statutory law as well as support from state Attorney General Opinions.

Attorney General *Opinion No. 07-155*[21] states that the Tennessee General Assembly has almost unlimited authority to determine how and where to appropriate public funds, subject to any exceptions in the Tennessee Constitution and state and federal law. If there are no exceptions, *Opinion No. 07-155* holds that pursuant to Section 4-3-106, *Tennessee Code Annotated,* the General Assembly can designate proceeds from one entity for the use of another entity, or for a different use by the same entity, as long as they do so through the appropriations act. The Attorney General took similar positions in *Opinion No. 09-87*[22] and *Opinion No. 14-67.*[23]

On the contrary, Attorney General *Opinion No. 13-75;*[24] *Opinion No. 13-47;*[25] Article II, Section 17 of the Tennessee Constitution; and Section 9-4-5108(c), *Tennessee Code Annotated*, place limits on what the General Assembly can include in the Appropriations Bill. Both prohibit the General Assembly from including items that amend provisions of the general law, and items not germane to the subject of appropriations, in the Appropriations Bill.

The disparity of positions we encountered surrounding the authorized use of and restriction of reserve funds increases the risk that state agencies and/or Finance and Administration may incorrectly use or deny the use of the Statutory Reserve Funds. Additionally, a lack of clarity could negatively impact the members of the General Assembly, and the appropriations process, if the General Assembly approves the Appropriations Bill with language that may violate the law.

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[21] The opinion held that the General Assembly could appropriate funds from the highway fund of the Tennessee Department of Transportation to the General Fund and use such funds to pay the expenditures of other state departments.

[22] The opinion held that although Section 4-3-1016, *Tennessee Code Annotated*, authorized the General Assembly to transfer statutorily restricted funds from the Emergency Communications Fund to the General Fund to fund expenditures for the fiscal year, federal law preempted the General Assembly from doing so, except for the interest earned from the fund.

[23] The opinion held that while Section 4-3-1016 (2014 version) explicitly prohibited the General Assembly from transferring funds from the Division of Regulatory Boards Fund to the Health-Related Board Fund to meet funding requirements of state government operations, the General Assembly could do so by amending the statute to authorize such transfers.

[24] The opinion held that the General Assembly's inclusion of a non-mandatory request of the Department of Education to develop a transition plan of the Alvin C. York Institute from the department to the Fentress County local education agency did not amend general law governing the institute's operations.

[25] The opinion held that the inclusion of an appropriation to a watershed authority for the purpose of refinancing bonds issued by the authority was in violation of Article II, Section 17 and Section 9-4-5108 because general law did not authorize the authority to issue refunding bonds.

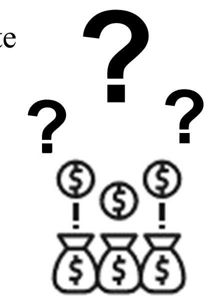
As this is a statutory issue, it may require resolution by legislative review and action. As state agencies have grown and evolved, their reserve fund statute language may need to be updated to reflect the current intentions as to reserve fund purposes.

When approving the Appropriations Bill, the members of the General Assembly may not realize that the **reserve language is different than existing state statute.**

Based on our interviews with Division of Budget personnel, the department will deny a request for the use of reserve funds if it does not meet the requirements of the statute; however, Division of Budget staff or state agency staff could not remember a specific instance when a reserve use request was denied.

Sweeping Reserve Funds

We identified the need for clarity and improved transparency for both state agencies and legislative members involving Statutory Reserve Funds or Carryforward Funds that are subject to the state's process to sweep reserve funds to facilitate closing the state's books. Although the last sweep occurred in fiscal year 2014, which was outside our audit scope, our audit objective was to ensure that the division has a transparent and sound decision-making model in place for future sweeps.



Our inquiries revealed that the Division of Budget recommends which funds to sweep after determining whether funds are obligated and how the state's books could be balanced with the minimum accounting transactions at the close of the fiscal year. Since the second factor is not a data-based decision, agencies with large reserve funds may be swept more frequently than agencies with smaller funds, without considering the history of which reserve funds were impacted over time. Although the department recommends which reserves to sweep, it is ultimately the Governor's Administration decision, which is then subject to legislative approval.

During the fiscal year 2014 sweep, department personnel provided General Assembly members with a list of recommended funds to sweep; however, they did not provide the members with a list of all Reserve and Carryforward Funds balances so that members knew which funds would be impacted by the sweep and which would not. Full transparency of the division's sweep process (including which Statutory Reserve Funds are needed to close the state's books and the rationale of why particular funds are selected) would provide all stakeholders with consistent and sufficient information for high-level fiscal decisions.

<u>Reversion Targets</u>

Furthermore, our inquiries revealed that the Division of Budget does not use a standard calculation when setting reversion targets for state agencies. The department collaborates with the Administration to set the reversion targets. The former Haslam Administration set the reversion targets that are currently in place. Some state agency targets have been the same every year, reversion targets for other state agencies fluctuate, and some smaller agencies do not have reversion targets at all. Although the Appropriations Bill contains an overall reversion target for the General Fund, it does not specify targets for each state agency. See **Table 6** for the overall reversion targets in the Appropriations Bill for fiscal years 2016 to 2019.

Table 6
Overall Over-Appropriation Reversion Targets for the General Fund
Fiscal Years 2016 to 2019

Fiscal Year	Reversion Targets, Recurring	Reversion Targets, Nonrecurring
2016 (July 1, 2015, to June 30, 2016)	$86,807,800	$60,000,000
2017 (July 1, 2016, to June 30, 2017)	$89,838,100	$60,000,000
2018 (July 1, 2017, to June 30, 2018)	$76,808,500	$102,409,200
2019 (July 1, 2018, to June 30, 2019)	$76,808,500	$50,000,000

Source: Appropriations Bill, Section 43, Item 1, fiscal years 2016 through 2019.

Based on our review, we found that in fiscal year 2018, certain agencies reverted large dollar amounts back to the state's General Fund. For details, see **Table 7**.

Table 7
Agencies With Largest Reversion Targets in Fiscal Year 2018

Agency	Recommended Budget	Reversion Target	Actual Reversion	Actual Reversion to Recommended Budget Percentage
Division of TennCare	$11,583,121,300	$67,409,200	$69,558,829	0.60%
Department of Education	$6,245,014,200	$30,200,000	$50,202,705	0.80%
Department of Safety	$234,115,600	$13,250,000	$14,182,402	6.06%
Department of Correction	$985,385,600	$10,000,000	$24,907,370	2.53%
Department of Human Services	$2,857,336,300	$4,500,000	$17,997,593	0.63%

*Source: Fiscal year 2018 Governor's Recommended Budget and documents provided by the department.

In order for all the state's stakeholders to be fully informed about General Fund reversions, the Division of Budget's process must include documentation of reversion calculation methodology, along with full communication and transparency of how the Division of Budget and the Division of Accounts closes the state's books. Also, the Division of Budget should inform the General Assembly of specific agency reversions so that members can track the impact excess reversions have on both agencies as a whole and their individual programs.

Supplemental Appropriations

There are no formal instructions in place for state agencies to request supplemental appropriations; however, creating and communicating such instructions would alleviate any misunderstandings and ensure that agencies use a consistent method for those requests.

Budget Terminology

During our review, we found that staff within the Department of Finance and Administration and other state agencies sometimes used the terms Statutory Reserve Funds and Carryforward Funds incorrectly. Statutory Reserve Funds are established by state statute, financed by dedicated revenue streams, restricted in use by language in statute and the Appropriations Bill, and roll over from one fiscal year to the next. Carryforward Funds are appropriated funds that an agency has remaining at the end of a fiscal year, which it may request permission from the Commissioner of Finance and Administration to keep and use for a specific purpose in the future. Using these terms incorrectly may indicate ambiguity over the allowed use of funds, which may result in agencies thinking that their funds may be used for one purpose when they are actually restricted in use for another purpose.

Office of Legislative Budget Analysis Comments

In the course of our audit, we contacted members of the General Assembly's Office of Legislative Budget Analysis (OLBA) to determine what, if any, improvements could make the budget process more effective and efficient for legislators. The OLBA House Director recommended including multi-year costs and revenue projections in the Governor's Recommended Budget document, as was done previously, which would help recognize potential future budgetary challenges. According to the National Association of State Budget Officers, 36 states currently include multi-year forecasting in their states' budget documents. The OLBA House Director also recommended quarterly or mid-year updates on agency-level expenditures, which would show if spending is on track, and a review of recurring appropriations made in past years to determine if older recurring appropriations should be continued. Other comments from OLBA can be found in **Exhibit 6**.

The Division of Budget Director responded to the comments and improvements suggested by the OLBA Directors:

- Multi-year projections were included with the Governor's Recommended Budget documents previously to demonstrate the imbalance of the budget and what work needed to be done with growth and cuts to make the state's books balanced. Forecasting revenue growth is challenging. As the legislature may not bind any future legislature, the projections cannot be a commitment to future spending; therefore, the projections would need to be presented and discussed carefully.
- The Division of Budget is working to add functionality to the budget system, BEARS, to develop mid-year spending updates. Division staff also believe that a review of recurring appropriations would be helpful.

- Regarding the limited time allowed for OLBA's analysis, timing is a challenge on all sides. Final decisions on the Governor's Recommended Budget document funding may not occur until late December or early January; once they are decided, the Administration determines the most appropriate time to announce those decisions, which is typically during the State of the State Address. Division of Budget staff agree that educating the legislature and providing them with working knowledge of the budget process is paramount.

Exhibit 6
Comments From the Office of Legislative Budget Analysis (OLBA) Senate Director

"OBLA staff and legislators need a more structured approach in working with the Administration during the budget process, which may **include monthly or quarterly briefings**.

OLBA staff get to see the Governor's Recommended Budget in mid-late November, which **does not leave much time for developing questions and allowing discussion**. During session, OLBA staff receives the budget document less than a week prior to the budget hearings beginning. This leaves little time for an in-depth analysis.

There is **a learning curve for the legislators due to the budget process' complexity**. For them to perform their duties and enact effective fiscal policy, it would be beneficial for there to be additional guidance and information on the budget process, perhaps in a video series or sessions, that include budget and fiscal directors from the different departments."

Overall Conclusion

Without a clear and consistent understanding of the budget process, stakeholders may not have sufficient or accurate information to make proper fiscal decisions. For example, Finance and Administration personnel may make incorrect decisions to approve or deny state agencies the use of funds or may make improper decisions about sweeping/using reserve funds to close the state's books. Likewise, state agencies may not have enough knowledge of the budgetary process to fully access all funds available to them. Moreover, the General Assembly's ability to make fully informed decisions when reviewing and approving the Appropriations Bill may be impaired without full transparency of the budget process.

The Director of Budget said that he "like[d] the idea of improving education on all budget issues."

Transparency and Accountability

Transparency and accountability in government are critical. Placing top priority on transparency and accountability allows the public to know if management uses government resources and its authority properly and in compliance with laws and regulations; if government programs are achieving their objectives and desired outcomes; and if government services are provided effectively, efficiently, economically, and ethically. Transparent processes are key for all involved parties to have the same advantage, avoid confusion, and operate in the correct way for optimal results. With a transparent budget process, the Division of Budget would allow state agencies to more fully understand the budget process and carry out their budget requests. In addition, one of Governor Bill Lee's priorities is increased openness and transparency within state government.

The Division of Budget should generate a thorough and detailed document that provides an overview of the budget process including, but not limited to, topics such as reserve fund requests, reserve usage, reserve sweeps, reversion target calculation, and supplemental appropriations. In addition, the budget process document should outline the various responsibilities of the involved parties.

Observation 2 – Due to restrictive statutory language, professional regulatory and health-related boards cannot include Statutory Reserve Funds in their self-sufficiency calculations and are treated individually when they actually function as a group for accounting purposes

According to Section 4-29-121, *Tennessee Code Annotated*, by December 31 of each year, the Department of Finance and Administration must submit a letter to the Government Operations Committee, highlighting the professional regulatory boards[26] and health-related boards[27] that were not self-sufficient for the fiscal year ending June 30. In order to achieve self-sufficiency, boards have to collect enough professional licensure and certification fees to cover operating costs. Boards that are not self-sufficient for two years in a row must appear before the joint Government Operations Committee in order to discuss their fiscal health.

Reserve Funds Not Included in Self-Sufficiency Calculations

Our observations of committee hearings and interviews with both Finance and Administration and other state agency personnel disclosed that the boards are unable to include Statutory Reserve Funds in their self-sufficiency calculations. As a result, committee members have questioned some of the boards during their self-sufficiency hearings about why they are closing with a deficit for the fiscal year while money sits unused in a reserve fund. The boards establish the Statutory Reserve Funds through levying fees to members, but the board may only access the reserve fund to cover expenses for the actions specified in the statute language; therefore, the boards cannot access and use reserve funds to achieve self-sufficiency by closing

[26] The 26 professional regulatory boards, commissions, and programs are administratively attached to the Department of Commerce and Insurance.
[27] The 39 health-related boards, committees, councils, and registries are administratively attached to the Department of Health.

their books without a deficit. See **Table 8** for a list of boards that were required to appear for self-sufficiency hearings.

Table 8
Regulatory Boards Self-Sufficiency Hearings*
Fiscal Years 2016 to 2018

Regulatory Board	Legislative Hearings	2nd Year Closing Deficit	Reserve Fund Balance
TN Applied Behavior Analyst Licensing Committee	2016	($8,684.43)	($9,284.74)
TN Applied Behavior Analyst Licensing Committee	2017	($2,559.75)	($12,172.34)
Credit Services Businesses	2017	($6,831.50)	($8,271.75)
Beauty Pageants	2017	($4,814.87)	($10,159.33)
TN Board of Medical Examiners	**2018**	**($231,445.24)**	**$2,476,325.68**
TN Massage Licensure Board	**2018**	**($52,294.22)**	**$912,042.60**
TN Board of X-Ray Technicians	2018	($113,606.85)	($172,075.09)
Credit Services Businesses	2018	($2,473.79)	($9,305.29)

*Bolded regulatory boards have a reserve balance after closing with a deficit for two years and being required to have a self-sufficiency hearing.
Source: Documentation provided by Department of Finance and Administration personnel.

Boards Are Treated Differently for Legislative Assessments and Accounting Purposes

While statute requires the Finance and Administration Commissioner to certify the self-sufficiency statuses transmitted to the joint Government Operations Committee, in practice, the boards are providing their data to Finance and Administration staff, who then compile that information into a self-sufficiency report. Although the legislature assesses the boards' financial statuses individually, for accounting purposes, Finance and Administration treats regulatory boards and health-related boards collectively. Finance and Administration pools the finances of the regulatory boards into one group and the finances of the health-related boards into another group. As a result, accounting staff do not have to complete fund transfers to offset the individual board deficits, since they automatically cover each other.

Based on the nature of some of the boards, it is difficult for them to operate self-sufficiently because

- the board regulates few licenses or certifications;
- the board faces prohibitively high operating costs; and/or
- the board's license and certification renewals only occur on alternate years.

The larger boards generally have no issue closing their books for the year and even generate money to go into their reserve funds. This means that smaller boards may incur a deficit year-to-year; however, under the current practice, these boards are closing out their books when they otherwise might not be able to do so because the funds from all the regulatory boards and all the health-related boards are pooled together. See the following **Matter for Legislative Consideration**.

Matter for Legislative Consideration

The General Assembly may wish to consider amending boards' statutory reserve language to allow for the use of reserve funds to cover operating deficits.

Observation 3 – The state's internal service funds contain amounts that are potentially available during the state's budget process

Since internal service funds operate on a cost-reimbursement basis, the general expectation is that the fund balance should include a reasonable amount of working capital but should not grow to excessive amounts over time. In any given year, the billings (the fund's operating revenues) should offset the operating expenses incurred by the internal service fund agency that provides the centralized services to other entities, mostly state agencies. During our review of Tennessee's fiscal year 2018 *Comprehensive Annual Financial Report* (CAFR), though, we noted that the cumulative balance for all 14 internal service funds had reached \$1.3 billion, \$959 million of which was unrestricted[28] (see **Exhibit 7**).

[28] According to the Government Accounting Standards Board, amounts may be restricted for certain purposes, such as construction of a new building. Amounts that are not restricted are called "unrestricted" and thus available for general purposes.

Exhibit 7
Internal Service Fund Balances
(Expressed in Thousands)

	Internal Service Funds	Total Fund Balance as of 6/30/2018	Unrestricted Fund Balance as of 6/30/2018	Unrestricted Fund Balance as of 6/30/2017	Dollar Difference	Percentage Difference	Total Operating Revenues as of 6/30/2018	Total Operating Expenses as of 6/30/2018	Difference Between Operating Revenues and Operating Expenses
1	Strategic Technology Solutions	$101,109	$71,744	$116,681	($44,937)	-39%	$189,711	$192,047	($2,336)
2	Risk Management	49,267	49,267	22,530	26,737	119%	62,949	39,280	23,669
3	Motor Vehicle Management	113,065	47,307	111,563	(64,256)	-58%	45,564	48,864	(3,300)
4	General Services Printing	3,526	2,994	3,278	(284)	-9%	7,197	7,290	(93)
5	Facilities Revolving Fund	696,342	439,366	626,078	(186,712)	-30%	141,106	144,402	(3,296)
6	Employee Group Insurance	298,662	298,662	231,948	66,714	29%	806,198	743,752	62,446
7	Postal Services	2,572	1,245	2,678	(1,433)	-54%	17,251	17,357	(106)
8	Purchasing	284	263	(563)	826	-147%	10,531	9,684	847
9	Warehousing and Distribution	253	250	247	3	1%	3,390	3,384	6
10	Records Management	(192)	(197)	(145)	(52)	36%	1,095	1,142	(47)
11	Human Resources	10,078	10,057	12,814	(2,757)	-22%	14,410	17,146	(2,736)
12	Division of Accounts	3,406	3,374	1,814	1,560	86%	25,873	26,198	(325)
13	TRICOR	11,877	7,634	11,931	(4,297)	-36%	23,620	23,674	(54)
14	Edison	30,098	27,214	34,124	(6,910)	-20%	32,377	36,346	(3,969)
	Total	**$1,320,347**	**$959,180**	**$1,174,978**	**-$215,798**	**-18%**	**$1,381,272**	**$1,310,566**	**$70,706**

Source: Fiscal year 2018 *Comprehensive Annual Financial Report*, available at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

When we discussed the unrestricted balances with Department of Finance and Administration management, they asserted that operating revenues approximated operating expenditures for most funds for fiscal year 2018, meaning that the rates the internal service fund used to bill the other state agencies were reasonable and appropriate. Department management provided further details about three of the five funds with the largest unrestricted fund balances as of June 30, 2018:

- Facilities Revolving Fund – Regarding pending purchasing orders, management stated that the actual available balance for this fund was **$39.7 million** out of the reported unrestricted balance of $439.3 million at June 30, 2018.
  - Of that $39.7 million, the Administration and General Assembly used $17 million as part of ongoing projects or to fund projects in the fiscal year 2020 budget rather than request new state appropriations from the General Assembly. With $14.9 million in additional earmarking, management provided a reconciliation showing that the balance available for operations was $7.8 million at September 10, 2019. According to management, "because of the length of time it takes between estimating project costs and actually going to bid with the projects, it is wise to carry some level of unobligated reserve to help fulfill budget gaps . . . as well as for unforeseen or emergency issues that may arise."
- Motor Vehicle Management – Management's calculations affirmed that the unrestricted $47.3 million serves as the actual amount available as of June 30, 2018. Based on our discussion with management, this amount represents the "accumulation of operational funds to be used to replace future equipment and vehicles."
- Strategic Technology Solutions – Management provided us with calculations showing that as of June 30, 2018, $57.6 million of the $71.7 million unrestricted balance had been earmarked for specific information system projects, leaving the actual available balance for this fund at **$14.2 million**.

Based on our understanding and discussions with department management, **$53.9 million** was potentially available from the Facilities Revolving Fund and from Strategic Technology Solutions for consideration during the state's budgetary process. The remaining funds may contain additional amounts that are available for consideration during the state's budgetary process.

In order for all stakeholders to make the best fiscal decisions for the state, they need access to all fiscal information. Department management stated that they do make recommendations to the General Assembly regarding the internal service funds' balances in certain cases. The department's Deputy Commissioner also noted that "with respect to most of these reserve balances, because federal funding comprised some part of the balances, some or all of the reported amounts cannot simply be re-appropriated by the General Assembly without causing issues with our federal funders."

Going forward, in its responsibilities for CAFR compilation and as the lead executive-branch agency in the budgetary process, the department should

1. distribute to the Office of Legislative Budget Analysis, as well as the House and Senate Finance, Ways and Means Committees, details of each of the internal service fund balances, including the unobligated amounts, to increase transparency and ensure the General Assembly has access to all fund availability so that it can make the best fiscal decisions when appropriating state dollars (currently, state statute only requires the department to submit an annual report on the Facilities Revolving Fund to the Office of Legislative Budget Analysis);
2. as part of the Governor's Recommended Budget, regularly and directly propose to the General Assembly ways of relying on existing reserve funds to complete projects instead of requesting new state appropriations;
3. explore the possibility of re-appropriating the existing high unobligated internal service fund reserve amounts; and
4. recalibrate billing rates for those funds with operating revenues significantly in excess of operating expenses.

Matter for Legislative Consideration

When considering annual appropriations, the General Assembly may wish to be aware of the state's internal service funds balances.

Division of Strategic Technology Solutions

Tennessee Comptroller of the Treasury

Division of Strategic Technology Solutions

General Background

The Division of Strategic Technology Solutions (STS), formerly the Office for Information Resources (OIR), serves as the state's central information processing organization and as a computer service bureau to state agencies. STS provides statewide data, voice, and video operations; information systems planning; information technology training; and security policy, direction, and protection. In addition, STS manages the state's website and operates two data centers.

Examples of STS Services

- Computer Support
- Project Management
- Network Services
- Telecommunications

In 2014, the state embarked on two new initiatives to consolidate executive-branch agencies' IT operations under OIR. The initiatives included Workstation Consolidation Support and Enterprise IT Transformation.

Workstation Consolidation Support

Governor Haslam initiated Workstation Conslidation Support in 2014 through Executive Order 39, which required 20 executive-branch agencies to enter into interdepartmental agreements with the Department of Finance and Administration to transfer their workstation support services[29] to OIR. In addition, the executive order required workstation support staffing positions to be eliminated from all 20 agencies. Employees previously staffed by state agencies as workstation support employees were not automatically transferred but were allowed to apply for the new positions within OIR. See **Appendix 7** on page 91 for a list of agencies in Executive Order 39 and the number of positions eliminated from each agency and created at OIR.

Enterprise IT Transformation

Enterprise IT Transformation began in 2016 and permitted state agencies to consolidate all their other IT operations and staff to the newly formed Division of Strategic Technology Solutions within the Department of Finance and Administration. Unlike the Workstation Support Consolidation initiative, agencies were not required to participate but were given the option to voluntarily participate. See **Appendix 8** on page 92 for a list of agencies that volunteered to consolidate as of July 1, 2019.

STS Billing Process

STS operates as an internal service fund, meaning state agencies pay for services. Each month, STS bills agencies to recover the cost of services it provides to agencies. Bills include a description of the services provided during the month and the billing amount for each service. STS created its billing rates using 40 cost models based on the services provided by STS, not based on the agency.

[29]Workstation support involves maintenance of information technology equipment and software.

Agencies have access to a "pre-bill" in advance of the final billing for workstation support and some labor costs. Pre-bills allow agencies to confirm billing is correct and to identify potential billing errors.

Amounts STS Billed to State Agencies

FY 2018: $253,706,800

FY 2019: $268,219,600

Upon reviewing their bills, agencies can report billing errors through a web application called ServiceNow. STS reviews all reported billing errors to determine if an error actually occurred.

Information Technology Project Review Process

When a state agency contemplates adding a new IT system or making significant improvements to an existing system, the proposed project goes through the state's IT planning process, which includes a review by the following IT advisory committees and STS staff.

Management Advisory Committee Review

Each agency's own Management Advisory Committee (MAC) provides the first level of review for a project. The MAC works with agency divisions to evaluate and prioritize projects within the agency, and submits project requests to the next review entity, the Solution Review Board.

Solution Review Board Review

For the second level of review, STS' Solution Review Board (SRB) reviews the project to determine whether the proposed technologies are appropriate for the project and fit with existing infrastructure. Once a project is reviewed and approved by the SRB, a disposition[30] is issued for the project. Depending on the estimated cost of the project, it is then reviewed by either the state's Enterprise Portfolio Investment Committee, the Information Systems Council, or both.

Enterprise Portfolio Investment Committee (EPIC) Review

All executive-branch projects estimated to cost $5 million or more are given to the state's Enterprise Portfolio Investment Committee (EPIC) for review. The state's former Chief Operating Officer and the Chief Information Officer established EPIC in 2013 to provide a consistent review process for proposed executive-branch agency IT projects. EPIC's review allows the Governor's staff to determine whether these projects align with the state's budget and IT plans.

EPIC MEMBERSHIP

- State of Tennessee Chief Operating Officer—serves as Chair
- Finance and Administration Commissioner
- Governor's Chief of Staff
- Finance and Administration Budget Director

The state's Chief Information Officer serves as staff to the committee.

[30] A disposition is a formal letter from the Solution Review Board notifying an agency and the Department of Finance and Administration's Budget Office that an IT project is approved.

Information Systems Council (ISC) Review

After a project is reviewed by EPIC, if it is estimated to cost $10 million or more, it is presented to the state's Information Systems Council (ISC) for ongoing status monitoring. The ISC was established by Section 4-3-5502(1), *Tennessee Code Annotated,* and is responsible for reviewing and monitoring projects until implementation is completed. Agencies are required to come before the ISC quarterly to discuss their IT projects' progress.

Throughout the IT planning process and during the implementation of IT projects, STS' Business Solutions Delivery (BSD) unit is available to assist agencies with direction and guidance.

Results of Prior Audit

In the department's December 2015 performance audit, we found that OIR had not ensured that all agencies had an IT disaster recovery plan.[31] In addition, we found that not all agencies participated in disaster recovery plan testing.[32] OIR management concurred with this finding and reported that OIR would emphasize disaster recovery planning and testing and would provide guidance and recommendations concerning the importance of disaster recovery programs.

We also found that OIR, serving as staff for the Information Systems Council, had not performed a systematic review of the ISC policies every two years, as required by internal policy. Management concurred with this finding and stated that they had assigned an employee the responsibility to administer the policy review every two years. In addition, management stated that OIR had created an electronic repository for documenting the policy reviews and policy revision recommendations.

Audit Results

1. **Audit Objective:** Did STS correct the prior finding involving disaster recovery?

   Conclusion: STS management did provide agencies with a disaster recovery plan template and opportunities to schedule disaster recovery testing.

2. **Audit Objective:** Did STS correct the prior finding by reviewing the ISC policies every two years?

   Conclusion: STS staff have reviewed ISC policies every two years.

3. **Audit Objective:** Did STS complete centralization on schedule?

   Conclusion: STS did complete both phases of the centralization initiative on schedule; however, it did not create interdepartmental agreements as required by Executive Order 39. See **Observation 4**.

[31] A disaster recovery plan is a documented plan that is designed to quickly reestablish an IT system following a service interruption or disaster, resulting in minimum loss to the organization.
[32] Disaster recovery plan testing involves scheduled tests to ensure that disaster recovery plans work.

4. **Audit Objective:** What was the methodology behind STS' billings to other agencies, and did it have effective steps in place to identify and correct billing errors?

Conclusion: STS' billing methodology is weak due to a lack of evidence that all billing rates were approved and inadequate billing descriptions. See **Finding 1**.

5. **Audit Objective:** Did EPIC have established criteria for reviewing projects to ensure consistency, and did the committee document any of its decisions?

Conclusion: EPIC has no defined duties, does not have any criteria when reviewing projects for approval, and has not documented any of its decisions. See **Observation 5**.

6. **Audit Objective:** Did the BSD unit ensure that system implementation projects were completed both on time and within budget?

Conclusion: BSD has only assisted with a limited number of implementation projects and, in several of these instances, agencies had begun work on the projects before centralizing and obtaining BSD's assistance. See **Matter for Legislative Consideration**.

<u>Methodology to Achieve Objectives</u>

To achieve our objectives related to follow-up of the prior performance audit finding regarding disaster recovery, we interviewed STS' Chief Information Security Officer and the IT Security Program Manager. We also obtained and reviewed a copy of STS' disaster recovery plan template, copies of all disaster recovery plans submitted to STS, a schedule of STS' disaster recovery plan testing, and the STS email notifications sent to agencies regarding its disaster recovery testing schedule.

To determine whether STS staff reviewed ISC policies as required, we obtained access to STS' policies and procedures; reviewed STS Procedure ISC-PR-001; and obtained copies of the ISC policy reviews conducted by STS from September 1, 2015, to the present.

For audit objectives related to centralization, we interviewed the state's Chief Information Officer and the Assistant Director of Business Solutions Delivery, and we reviewed documentation provided to agencies during the planning phase of the centralization initiative. We also reviewed Executive Order 39 and obtained a list of dates that agencies centralized under STS.

For our objectives related to STS' billing process, we interviewed key STS personnel, including the Executive Director of Business Solutions Delivery, the Executive Director of Enterprise Governance and Administration, the Enterprise IT Portfolio Manager, the Director of Fiscal Services, and STS' five Business Domain Directors. We also interviewed the Department of Finance and Administration's Director of Budget and five state agency fiscal officers responsible for reviewing STS' monthly billing. In addition, we reviewed examples of bills that STS sends to agencies and the cost models STS currently uses to determine billing rates. Finally, we sent questionnaires to 20 fiscal officers in various state agencies that were centralized and received services from STS, to inquire about STS billings.

To achieve our objectives related to EPIC, we interviewed key STS personnel, including the state's Chief Information Officer, the Deputy Chief Information Officer, STS' Executive Director of Enterprise Governance and Administration, and the Senior IT Planning Manager. We also obtained a list of projects reviewed by EPIC.

Finding 1 – The department has not yet corrected weaknesses with STS billings

Based on our testwork, the Division of Strategic Technology Solutions' (STS) billing has both design and implementation flaws, leading to a lack of transparency for other state agencies. We specifically determined that STS

- used numerous cost models to bill state agencies, leading to potential confusion for the billed agency;
- could not always provide cost models to support billings to the state agencies;
- could not provide evidence that all models had been approved for use by Department of Finance and Administration management;
- did not include sufficient explanation for billing line items so that state agencies could know the nature of the billings;
- billed state agencies for services provided by STS employees who agency personnel were not familiar with; and
- did not provide state agencies sufficient information regarding bills for maintenance charges.

These problems have left many state agencies dissatisfied with their ability to review and understand bills and determine if there are billing errors.

Background

We first notified department management of problems with STS (then the Office for Information Resources) billing, including cost plan development, in our March 2004 performance audit report. We then repeated this finding in our April 2011 performance report. Since our 2015 audit focused on other divisions of the department, we did not include this as one of our objectives in our December 2015 performance report.

Based on a questionnaire that we sent to fiscal officers in 20 state agencies in May 2019, we found that billing issues still exist. Out of the 20 agencies we contacted, 16 agencies responded to the questionnaire. See **Table 9** for a results summary and **Appendix 9** on page 93 for agencies' comments.

Table 9
State Agencies' Responses to Auditors' May 2019 Questionnaire

Question	Yes	No	Percent of Negative Responses
Overall, are you currently satisfied with the STS billing process?	6	10	**63%**
Do you feel that STS is transparent with how it bills agencies for IT services and equipment?	7	8	**53%***
Are you able to easily read and understand the bills that your agency receives each month from STS?	7	9	**56%**
Do you or anyone at your agency conduct any type of reconciliation to verify that the amount that STS bills your agency for each month is correct?	12	4	**25%**
Did you find any billing errors on the bills that your agency received during FY 18 – present?	10	4	**71%*†**

*Not all 16 agencies responded to this question.
†To calculate this percentage, we divided the number of "Yes" responses (10) over the total number of responses (14), since identifying billing errors constitutes a negative condition.
Source: Responses to auditor questionnaire.

<u>Design Flaws</u>

Cost Models

STS currently uses 40 separate cost models to bill its services to other state agencies. When we requested these cost models, STS could not find 4 of them (10%); however, STS charges state agencies between $66 and $100 per hour, or $500 per month, for the services and labor associated with these missing cost models. See **Appendix 10** on page 94 for a list of the missing cost models and the service and labor rates charged, and **Appendix 11** on page 95 for a list of agencies that received bills based on the missing model rates in fiscal years 2018 and 2019.

The STS Executive Director of Enterprise Governance and Administration stated that the cost models were likely missing as they were originally created by multiple divisions within the department and also by multiple STS (then OIR) staff. Given that these models may have been created prior to 2004 based on our prior audit finding and the 2011 repeated audit finding, STS cannot be assured that the rates that they are currently charging agencies are accurate or appropriate for services rendered.

We also found that of the 36 cost models we were able to examine, STS could not provide evidence that 23 (64%) had been reviewed and approved for billing use by Department of Finance and Administration management, including the STS Fiscal Director, the STS Executive Director of Enterprise Governance and Administration, the STS Chief Information Officer, and the department's Deputy Commissioner. Supervisory review serves as a key internal control to verify the propriety of billings. Based on our discussion with the STS Executive Director, STS implemented a new process, beginning with March 2018 cost models, to require signatures to evidence the approvals; she noted that was not to say that approvals were not required previously, just that they had not been documented.

According to STS management, STS implemented STS Procedure 100-PROC-720, which defines how STS will develop cost models in the future, on August 8, 2019.

Billing Lines

Based on discussion with STS management and other state agencies, as well as our own observations, numerous individual line items comprise the STS billings. Representatives from the five state agencies we interviewed and results from our May 2019 questionnaire enumerated multiple concerns about these billing details:

- Meaning of line items unclear – STS managers create lines, or work descriptions, for each project they oversee. As of June 2019, STS had accumulated 16,223 work descriptions. Although work descriptions are included on agencies' bills to help agencies understand services provided, agencies reported that they could not determine the nature of the work STS had completed for them just by reading the work description listed in the billing. Some agencies cited examples of billing lines that lacked any context or explanation; others cited descriptions that were too technical. When reviewing the list of work descriptions, we discovered such unclear phrases as "Begin Project," "Analyse," "Janet's Letters," and "Break/Fix." Agencies expressed to us a desire for STS to compile a glossary of commonly used descriptions or technical terms. Overall, the number and variety of work descriptions suggest that STS' process of creating line items lacks control and organization.

STS uses **16,223** work descriptions in its billings to state agencies.

- Unknown STS employees appear on billings – According to state agency representatives, their billings have shown labor charges for STS employees who, to their knowledge, have not provided any services to their agencies. STS management told us that these employees provide IT expertise in such areas as database support[33] and business intelligence.[34] However, STS has not provided this information to state agencies through the billings.
- Confusion about maintenance charges – While providing feedback to us, agencies questioned why they pay a monthly fee for workstation maintenance but are also billed for time with the description "maintenance." We followed up with STS management, who informed us that the $23.05 per workstation per month fee that agencies pay covers workstation maintenance; however, agencies may require maintenance to something

[33] Database support involves managing and supporting a computer database.
[34] Business intelligence involves managing computer applications and IT infrastructure.

other than a workstation, such as applications. When we asked STS whether they had communicated which maintenance tasks the monthly maintenance fee covers, we did not receive an answer.

Repercussions of Inadequate Transparency

Because agencies have been given very little information about STS' billing process, they are unable to express with a high degree of certainty that the services for which they pay STS match those they receive. Due to the lack of transparency surrounding the billing process, agencies are hindered from exercising their own internal controls in reconciling the services they receive to the funds they pay to STS.

Implementation Flaws

Known Double-billing Error

On July 1, 2018, STS started charging centralized agencies an all-inclusive rate covering training, supplies, equipment for employees providing services, and salary and benefits. In November 2018, STS discovered that it had continued to bill 15 of these centralized agencies using the old methodology for some of the services the new all-inclusive rate encompasses, effectively creating double-billings in the amount of $79,215. See **Appendix 12** on page 99 for a list of agencies that were double-billed and the amounts STS refunded to them. Even though STS identified the billing error in November 2018, STS did not communicate to agencies basic information about the billing error, including which agencies were due refunds or the refund amounts.

According to the Executive Director of Business Solutions Delivery, STS verbally notified agencies about the billing error during monthly billing meetings; however, STS did not provide agencies with any written information about the billing error because each agency was unique in the amount billed and the timing of resolution.

Errors Discovered After Fiscal Year-End

We also found that state agencies complained that if billing errors from the previous fiscal year are not found until the next fiscal year—a distinct possibility since it takes STS more than a month to make that month's billing available—then STS does not refund agencies for these errors. One agency gave us an example from May 2019 where staff identified that STS had overbilled by $10,800 in charges over the past 18 months, dating back to November 2017. However, STS denied the agency $4,575 of the refund for the fiscal year 2018 billings, paying only the $6,225 associated with the fiscal year 2019 billings.

According to the STS Fiscal Director, "The general rule is that we don't cross fiscal years. We would evaluate billing errors that cross fiscal years on a case by case basis. Materiality of the error would be considered." Although the STS Fiscal Director provided us with examples of refunds that she made that crossed fiscal years, she was unable to define "materiality" for us and did not have a formal, documented framework for evaluating refunds.

Equipment Charges

Fiscal staff at one state agency also explained that since fiscal year 2017, they received pre-bills that included charges for workstations that were no longer in use. STS' internal controls did not ensure that it ceased billing agencies, even after receiving repeated notifications about billing errors.

Our state agency inquiries additionally revealed that while agencies receive a pre-bill in advance of the final bill for workstation and labor costs, agencies do not receive a pre-bill for network equipment. Having a pre-bill would allow agencies to look for errors and report them to STS for correction.

Repercussions of Known and Potential Billing Errors

STS' development and maintenance of cost model documentation and correct and timely remediation of errors are critical because state agencies pass on all or parts of the billing amounts to federal granting agencies. Between August 2018 and September 2019, state agencies questioned billing amounts ranging from $5 to $1,415,754; however, STS could not tell us whether these inquiries were determined to be billing errors or resulted in any refunds. If STS cannot fully justify billings, then the federal agencies might question the costs, which could result in the state having to repay the federal agencies for any unsupported costs.

Furthermore, the department, including STS, must ensure fiscal transparency and accuracy of its billing process so that all state agencies can maximize their state appropriations and grant funds to improve the lives of Tennessee's citizens.

Recommendation

STS management should conduct a comprehensive review of its billing processes and ensure that they are fully documented. STS should communicate with agencies to receive feedback about how the billing process can improve. STS should also make the following changes to increase agencies' understanding of the STS billing process:

- reduce the number of billing descriptions and create standardized billing descriptions so that billing terminology is consistent and easy to understand for state agencies;
- create a glossary that defines all work item descriptions that can appear on agencies' bills;
- fully communicate to agencies in writing any billing errors identified and immediately process refunds, including the full amount of overbillings crossing fiscal years; and
- provide agencies with a pre-bill for network equipment charges.

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Management should also ensure that the agencies' pre-bills do not include workstation equipment that is no longer in use.

Additionally, while a case-by-case review may be reasonable for evaluating billing errors, management should develop a consistent methodology for reviewing and documenting their decisions regarding refund requests. After discovering billing errors, management should communicate the errors in writing to all affected agencies so that they understand the errors, the amounts involved, and when they will receive refunds.

Finally, management should ensure it uses the minimum number of cost models needed for the services provided, create new cost models to replace those that it cannot locate, continue its efforts to create a standardized format for all cost models, and ensure that it retains documentation regarding the approval of cost models.

Management's Comment

We concur. Management feels the transition to the new billing model, which is currently underway, along with other business process improvements discussed below, should adequately address the audit recommendations. Strategic Technology Solutions (STS) has corrected some weaknesses with STS billings, enhanced transparency for other state agencies surrounding IT service billings, and has a project underway to transition billing from TIBS [Tennessee Integrated Billing Service] to the state's ERP [enterprise resource planning] system, Edison. Project goals include improving the transparency, timeliness, and accuracy of billings, as well as increasing data quality. Since services for employees and agencies will be stored in one location (Edison), agencies will have greater visibility into the STS services being billed to their business units. This change will also allow agencies to leverage existing functionality within the ERP system, including reporting and management of funding sources. As the amount of manual steps involved in the billing process will be greatly reduced, there should also be a significant reduction in billing errors (e.g., billing for terminated employees or to the incorrect funding source). Finally, since agency billings will be processed closer to the time that the services are actually received, agencies and Finance and Administration (F&A) should be able to identify and correct errors in a timelier manner.

Further, the development and maintenance of cost models has been centralized and a repository has been established to ensure that a consistent methodology is used for the creation of all cost models. STS has also implemented a new cost model review process to ensure that cost models are on a regular review cycle and are reviewed and approved by F&A leadership.

Additionally, STS implemented the STS Billing Center, which is a web application that allows agencies to access their monthly bill and drill down into detailed information supporting all agency IT charges. Should agency staff have questions about any charges, there is an effective process for the submission of billing inquiries. Prior to August 2018, agencies had no central point of contact for billing questions; however, in August 2018, STS and STS Fiscal partnered to implement a Service Now Billing Inquiry template. Billing question/inquiry tickets are triaged by billing staff who either answer the question or route it to service owners for review and response. Customer tickets remain in an open status until the inquiry is resolved.

To date, STS Fiscal and STS have responded to over 850 inquiries from agencies. The billing inquiry template is used for a variety of questions including, but not limited to, 1) assistance in understanding a charge; 2) changes to speedcharts used for payment; 3) information to support billings; 4) corrections to billings; 5) billings for disconnected services and/or terminated employees; and 6) services received but not included on billings.

STS has further enhanced transparency through labor billing, where staff time is applied to specific work items in a time reporting web application. This level of granularity enables federally-funded agencies to demonstrate the specific projects staff are working on and how time is allocated.

Finally, billing errors and refund requests are evaluated by STS with input from STS Fiscal on a case-by-case basis, which includes consideration of the circumstances and materiality of each one. If it is determined that a refund is to be issued, that refund is issued in the current fiscal year regardless of whether the error occurred in the current or previous fiscal year.

Observation 4 - Management of the Division of Strategic Technology Solutions did not establish interdepartmental agreements with state agencies for workstation support

The Division of Strategic Technology Solutions (STS) did not execute formal agreements with any of the 20 state agencies for which it provides workstation support. According to Executive Order 39, "each of the Departments shall enter into an interdepartmental agreement with the Department of Finance and Administration to execute the intent of this Executive Order."

Based on our discussions with the state's Chief Information Officer (CIO), her predecessor, who left in October 2018, decided not to create any interdepartmental agreements despite the requirements specified in the executive order. When asked about the reason for this decision, the CIO stated that she was not involved in the conversations about it and that she could not say why her predecessor made the decision. The CIO also stated that she continued the decision not to create any interdepartmental agreements because STS and the agencies entered into service partnership agreements.[35] As of September 2019, however, the division had entered into agreements with only 15 of the 20 agencies referenced in Executive Order 39.

The purpose of an agreement is to formally describe each entity's duties and responsibilities, any applicable exchanges of funds, and the terms of the agreement. By failing to secure executed agreements with all agencies, the department increases the risk that it cannot protect its interests, serve its customers, and generate the revenue necessary to carry out its programs.

The Commissioner should ensure that STS executes written agreements with state agencies that clearly delineate all parties' authorities, responsibilities, and fiscal relationships before providing services to the agencies that are its customers.

[35] A service partnership agreement is a document outlining a business relationship between one customer agency and one service agency within the executive branch.

Observation 5 – The Enterprise Portfolio Investment Committee should establish written criteria for evaluating projects and document its decisions

The state's former Chief Operating Officer and the Chief Information Officer established the Enterprise Portfolio Investment Committee (EPIC) in 2013 for the purpose of reviewing executive-branch IT projects estimated to cost more than $5 million to ensure they align with the state's budget and IT plans. If EPIC determines that a project is not appropriate for the state, it can deny or modify the project.

Given EPIC's critical role, we requested documentation about the committee meetings and projects that Strategic Technology Solutions (STS) management has brought before EPIC. We found that EPIC keeps no records of topics discussed during meetings, criteria used for evaluating projects, or actions taken by the committee. While the STS Executive Director of Enterprise Governance and Administration told us that EPIC had never denied an agency's IT project, she relayed an instance in which the committee decided upon a major change in an agency's proposed project. However, neither she nor other STS personnel were able to provide us with records supporting EPIC's decisions to ensure those decisions were justified and based on established review criteria.

In the absence of written records, agencies subject to the decision-making process have no assurance of consistency and equal treatment under the EPIC review process. Additionally, EPIC will not be able to rely on its decision-making history to ensure a consistent process for reviewing and analyzing the state's mid-level IT project requests and creating the public record for EPIC decisions.

EPIC's decisions may impact the state financially and operationally. STS should ensure EPIC's critical role is shared with state agencies, the legislature, and other stakeholders so that the state's IT project decisions are available to all stakeholders.

Matter for Legislative Consideration

This audit identified an area in which the General Assembly may wish to consider statutory changes to improve the department's efficiency and effectiveness, specifically in relation to the assistance that it offers other state agencies in implementing new IT systems. Section 4-3-5503, *Tennessee Code Annotated*, states that "the division of strategic technology solutions shall facilitate the use of information systems, provide technical direction and assistance to departments . . . and serve as a computer service bureau." State statute does not, however, require agencies to use STS' expertise.

Historically, the state has had IT projects that have completely failed, significantly exceeded budget, been delivered years late, and/or been implemented without full functionality. In response to these issues, the department formed a Business Solutions Delivery (BSD) unit and adopted the Planview system as an interagency tool for shared project management. From September 1, 2015, to July 5, 2019, BSD assisted with the implementation of 15 large information systems projects.[36] However, BSD did not become involved with many of these projects until after their initial start dates due to STS' centralization of agencies at various times from 2016 to 2018 under the Enterprise IT Transformation initiative. As a result, BSD was limited in its ability to effectively manage, monitor, and advise agencies about these projects. Furthermore, some agencies still have not transferred their IT functions to the department and may, therefore, begin large IT projects without obtaining BSD's assistance.

The General Assembly may wish to require state agencies to obtain assistance from BSD and clarify STS' responsibilities regarding system implementations.

[36] These projects had estimated costs greater than $10 million and were required to be monitored by the state's Information Systems Council.

Division of Benefits Administration

TENNESSEE COMPTROLLER OF THE TREASURY

Division of Benefits Administration

Background

The Department of Finance and Administration's Division of Benefits Administration administers health, dental, vision, life, and disability insurance coverages for over 300,000 public-sector employees, retirees, and their eligible dependents. Insurance program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who choose to participate in one of the state-sponsored plans. Various quasi-governmental eligible nonprofit agencies may also elect to participate in the division's local government plan.

In order to administer insurance benefits and complete the related administrative functions, the Division of Benefits Administration works with the following vendors:

- BlueCross BlueShield of Tennessee and Cigna – healthcare plan coverage;
- CVS/Caremark – prescription drug coverage and other pharmacy benefits management;
- Optum Health – employee assistance program services and administration of behavioral health and substance use coverage;
- UMR/POMCO – supplemental medical insurance coverage for retirees with Medicare;
- ActiveHealth Management – administrator of the voluntary ParTNers for Health Wellness Program and the weight management program;
- Aon Hewitt – healthcare plan assessments and consultant services;
- PayFlex – flexible spending account and health savings account;
- Cigna and MetLife – dental coverage;
- Davis Vision – vision coverage;
- MetLife – short-term and long-term disability coverage;
- Securian Financial (Minnesota Life) – life insurance coverage;
- University Community Health Service; and
- IBM Watson Health.

Results of Prior Audit

In the department's December 2015 performance audit report, we reported five findings related to the employee wellness program administered by American Healthways Services, LLC (Healthways), the division's vendor for the program at the time. Specifically, we noted the following:

1. Division staff did not adequately monitor and verify coaching selections.
2. The division did not adequately monitor coaching calls.
3. Division staff did not adequately monitor the contract and lacked information on outcomes and participation.
4. The division did not ensure that a Healthways' subcontractor, Onsite Health Diagnostics, could receive, process, and transmit biometric information in accordance with data security and integrity requirements.
5. Member satisfaction percentages for the Lifestyle Management and Disease Management programs have not met targeted levels in 2013 and 2014.

Management concurred in part with Findings 1, 2, and 3 and concurred fully with Findings 4 and 5. The department's contract with Healthways ended on December 31, 2017, and ActiveHealth Management (ActiveHealth) was awarded the new wellness program contract for the state.

Audit Results

Audit Objective: Did the division correct the five prior findings involving the Healthways contract?

Conclusion: The division corrected the five prior findings by replacing the Healthways contract with new contracts with ActiveHealth.

Methodology To Achieve Objective

We interviewed the Executive Director and the Director of Vendor Services and examined the six-month follow-up report the department submitted in response to the findings in the prior audit. We also obtained and reviewed the Request for Proposals for health and wellness services, as well as the contracts awarded to ActiveHealth.

Division of Accounts

Tennessee Comptroller of the Treasury

DIVISION OF ACCOUNTS

The Division of Accounts provides the controller function for state government. This function includes preparing tax filings with the Internal Revenue Service and the state's *Comprehensive Annual Financial Report*, which provides a comprehensive view of the state's financial activities during the fiscal year. The division performs accounting services for state agencies including

- maintenance of the general ledger and the official accounting records of the state;
- statewide centralized payment processing for all vendor payments, employee expense reimbursements, and central payroll processing for the state;
- compilation of the federally required Schedule of Expenditures of Federal Awards;
- validation of open checkbook data posted to the state's transparency site; and
- promotion of awareness about and assistance with grant requirements.

Centralized Accounting

The Division of Accounts has responsibility for the state's executive-branch centralized accounting initiative, which began when former Governor Haslam issued Executive Order 13, effective July 1, 2012, transferring financial accounting and reporting positions from three state agencies to the Department of Finance and Administration, "in the interest of a more economical and efficient State service." A year later, on June 27, 2013, Governor Haslam, through Executive Order 30, required an additional 33 departments and agencies to transfer these positions to the centralized initiative. For some smaller agencies, the division combined accounting offices under a "shared services" model.[37]

As of June 30, 2019, the division operates the centralized accounting functions of 35 state agencies (see **Table 10**). Efforts to centralize additional agencies are ongoing.

[37] The shared services model is the department's centralized accounting for small agencies, operated by accounting staff at the Department of Finance and Administration. For larger agencies, accounting positions remain at the agency served but become Department of Finance and Administration positions.

Table 10
Agencies in Centralized Accounting
As of June 30, 2019

Agriculture	Human Resources*
Alcoholic Beverage Commission*	Human Rights Commission*
Arts Commission*	Human Services
Board of Parole*	Intellectual and Developmental Disabilities
Children's Services	Labor and Workforce Development
Commerce and Insurance	Mental Health and Substance Abuse
Commission on Aging and Disability*	Military
Correction	Revenue
Council on Developmental Disabilities*	Safety and Homeland Security
Economic and Community Development	TennCare
Education	Tennessee Commission on Children and Youth*
Environment and Conservation	Tennessee State Museum*
Executive Department*	Tennessee Wildlife Resources Agency
Finance and Administration	Tourist Development*
Financial Institutions*	Transportation
General Services	TRICOR (Tennessee Rehabilitative Initiative in Correction)
Health	Veterans Services*†
Health Services and Development Agency*	

*These agencies participate in the shared services model.
†Effective July 1, 2015, the Department of Veterans Affairs was renamed the Department of Veterans Services.
Source: The Chief of Accounts for the Department of Finance and Administration.

Results of the Prior Audit

As part of the division's responsibility for statewide accounting policies and payments, it maintains state travel regulations and information about travel expenses. In the department's December 2015 performance audit report, we reported that, pursuant to statute, the department only reported out-of-state travel costs for the Governor, members of the Governor's cabinet, or cabinet-level staff when the costs were reimbursements. It did not report costs that were direct expenditures (such as airfare and meals paid for directly by using a state-approved vendor or using a state-issued payment card). In response to the prior audit finding, management concurred and stated that it reports out-of-state travel costs in accordance with state law, which was revised to include all expenditures and reimbursements.

Audit Results

1. **Audit Objective:** In response to the prior finding, and based on the General Assembly's amendment to state statute regarding the reporting of travel expenditures and reimbursements, did the department modify its reporting accordingly?

Conclusion: After the General Assembly amended state statute, the department modified Comprehensive Travel Regulations and began reporting travel expenditures and reimbursements for the Governor and his cabinet.

2. Audit Objective: Did the division achieve the goals of centralization?

Conclusion: We found that the division recorded centralization accomplishments related to the objective to provide economic, efficient accounting services to centralized agencies.

Methodology to Achieve Objectives

In order to determine whether the department reported out-of-state travel reimbursements for the Governor and his cabinet, we interviewed the Internal Audit Director. We also reviewed updated travel regulations and travel expenses for cabinet-level staff, which was available on the Transparent Tennessee website.

We reviewed Executive Orders 13 and 30 and the Division of Account's Centralized Accounting Plan. We interviewed the Chief of Accounts and the Deputy Chief of Accounts regarding the centralization process and the division's relationship with other agencies. We also reviewed a request for feedback that the division provided to management of centralized agencies other than those in shared services.

Grant Management and Subrecipient Monitoring

Tennessee Comptroller of the Treasury

Grant Management and Subrecipient Monitoring

Background

Two groups in the Department of Finance and Administration administer grant programs: Volunteer Tennessee and the Office of Criminal Justice Programs.

Then Governor McWherter created Volunteer Tennessee in 1994 so that Tennessee would qualify to receive federal funds under the 1993 National and Community Service Trust Act. Volunteer Tennessee awards grants to nonprofit organizations and other agencies that provide youth leadership development, service learning, and mentorship for public school students in Tennessee. In fiscal year 2019, it awarded $4,642,964 to 24 subrecipients. Volunteer Tennessee staff includes one full-time staff auditor who performs both programmatic and fiscal monitoring and reviews and evaluates pre-award information. An agency applying for a Volunteer Tennessee grant must complete a financial management survey and submit its most recent Internal Revenue Service Form 990 and audited financial statements or audits of federal grant awards. The Volunteer Tennessee auditor reviews this information and documents her review and evaluation of an applicant's solvency in the Pre-Award Risk Assessment Summary.

The Office of Criminal Justice Programs (OCJP) secures, distributes, and administers federal and state grant funds related to criminal justice and services to victims. OCJP administers these grant funds through subrecipients including local governments, law enforcement agencies, and nonprofit agencies. In fiscal year 2019, OCJP obligated $51,589,935 through 280 contracts. Monitors, 2 full-time and 1 part-time, conduct fiscal monitoring, and 13 full-time program supervisors and program managers conduct program monitoring as one of their responsibilities. A nonprofit agency applying for an OCJP grant must submit Internal Revenue Service Form 990, its balance sheet, and its most recent audit report or general ledger along with its application and other documentation. From this information, the Senior Audit Manager compares current assets to current liabilities to determine the agency's solvency, specifically whether the agency can meet its obligations with its existing sources of funding. According to the OCJP Fiscal Assistant Director, the Senior Audit Manager reviews these documents and evaluates an agency's solvency.

All state agencies awarding state or federal funds or non-cash assistance to subrecipients must follow the state's Central Procurement Office (CPO) Policy 2013-007, "Grant Management and Subrecipient Monitoring Policy and Procedures." Under this policy, agencies must annually submit monitoring plans for CPO approval by October 1. In their monitoring plans, agencies must include information such as

- the total subrecipient contracts population,
- the subrecipient contracts the agency will monitor during its monitoring cycle, and
- a risk assessment for each subrecipient and its related contracts.

If a state agency subsequently makes changes to a CPO-approved subrecipient monitoring plan, the policy states that the agency should submit the changes to CPO for approval. At the conclusion of each subrecipient monitoring review, the agency must issue a report to the subrecipient within 30 business days from the fieldwork end date.

CPO Policy 2013-007 also requires agencies to monitor subrecipients at least once every three years. Agencies monitor subrecipients for both fiscal and program requirements as required by the grant contract, the grant program, and applicable federal law. Volunteer Tennessee conducts both its fiscal and program monitoring during one site visit; OCJP performs separate program and fiscal monitoring. OCJP management makes monitoring plans based upon programmatic and fiscal risk and decides each year whether to monitor a subrecipient for program requirements, fiscal requirements, or both, based upon risk levels. During fiscal monitoring, Volunteer Tennessee and OCJP staff review whether the agency is a going concern and therefore solvent. If monitoring identifies unallowed use of funding, Volunteer Tennessee and OCJP can question costs and require the agency to repay those costs.

Results of the Prior Audit

In the department's December 2015 performance audit report, we reported that Volunteer Tennessee did not complete its annual subrecipient monitoring plans timely, performed monitoring after the ends of contract years, and did not monitor one subrecipient within a three-year period. Management concurred in part with the finding and stated that it would move toward issuing reports during the applicable years, perform monthly reviews of monitoring status, and include the unreviewed agency in its fiscal year 2016 monitoring plan. We also reported that, subsequent to identifying a subrecipient with potential solvency concerns, Volunteer Tennessee did not monitor the subrecipient's current contract and allowed it to pay earlier questioned costs in installments over a period of time. Management concurred with this finding and stated that it would monitor the subrecipient and that it had recovered all disallowed costs.

Audit Results

1. **Audit Objective:** In response to the prior audit findings, did Volunteer Tennessee comply with applicable monitoring requirements and monitor subrecipients as necessary?

   Conclusion: Volunteer Tennessee corrected the two prior findings involving subrecipient monitoring. It completed each year's monitoring plan within that fiscal year and issued monitoring reports within 30 days of the end of fieldwork. Volunteer Tennessee also monitored the subrecipient with solvency concerns in its final year in the grant program and recouped all disallowed costs.

2. **Audit Objective:** Did OCJP staff assess agencies' solvency before granting subawards and during subrecipient monitoring?

   Conclusion: OCJP management stated that staff evaluated agencies' solvency as part of the application process. However, management did not ensure that a formal process was in place to document this evaluation. See **Observation 6**.

3. Audit Objective: Did OCJP staff perform subrecipient monitoring as indicated in its approved monitoring plan? In addition, did OCJP issue reports and monitor contracts and subrecipients in accordance with CPO policy?

Conclusion: OCJP submitted monitoring plans to CPO and completed monitoring activities but did not always update CPO when it altered its monitoring plan. See **Observation 6**.

Methodology To Achieve Objectives

We interviewed OCJP and Volunteer Tennessee management and staff and reviewed approved subrecipient monitoring plans for fiscal years 2016 through 2019, subrecipient monitoring reports, pre- and post-award risk assessments, subrecipient corrective action plans, and training materials for new subrecipients.

To determine if OCJP and Volunteer Tennessee staff assessed agencies' solvency before granting subawards, we reviewed pre-award risk assessments, the Volunteer Tennessee Financial Management Survey, and the OCJP Application Review Form.

To determine if OCJP monitored contracts as planned, included solvency in its monitoring, and issued monitoring reports timely, we obtained a population of 133 contracts that OCJP identified to monitor during fiscal year 2018. We tested a nonstatistical, random sample of 60 contracts that OCJP planned to monitor and searched for the monitoring reports associated with the identified monitoring. From this sample, we tested the 24 contracts with non-governmental subrecipients where monitoring staff performed fiscal monitoring to determine if monitoring staff included solvency assessment as an objective. We also tested 61 monitoring reports from this sample to determine if monitoring staff issued reports timely after completing fieldwork.

To determine if Volunteer Tennessee monitored contracts as planned, included solvency in its monitoring, and issued monitoring reports timely, we obtained a population of 29 contracts that Volunteer Tennessee identified to monitor in fiscal years 2016 through 2018. We tested the 29 contracts Volunteer Tennessee planned to monitor and searched for the monitoring reports associated with the identified monitoring. We also tested these contracts to determine if monitoring staff included solvency assessment as an objective in their monitoring and issued monitoring reports timely after completing fieldwork.

For both Volunteer Tennessee and OCJP, we tested total populations of contracts for fiscal years 2016 and 2017 for compliance with the requirement to monitor at least once every three years. We tested the population of 214 OCJP contracts with award beginning dates of July 1, 2015, or later that OCJP indicated were effective in its approved subrecipient monitoring plans for fiscal years 2016 and 2017. For Volunteer Tennessee, we tested the population of 46 contracts Volunteer Tennessee indicated were effective in its approved subrecipient monitoring plans for fiscal years 2016 and 2017. For all Volunteer Tennessee contracts and OCJP subrecipient contracts of two years or fewer, we reviewed whether Volunteer Tennessee and OCJP planned to monitor any contract with the same subrecipient in the tested monitoring plan or the following two years' monitoring plans. For OCJP contracts with terms of greater than two years, we tested whether OCJP planned to monitor the contract in the tested monitoring plan or the following two years' monitoring plans.

Observation 6 – Office of Criminal Justice Programs management should ensure that staff document their assessments of agencies' solvency before awarding grants and should submit updated monitoring plans to the Central Procurement Office when necessary

Pre-Award Reviews of Agencies' Solvency

Office of Criminal Justice Programs (OCJP) management has not ensured that the Senior Audit Manager documents her evaluation of agencies' solvency or her conclusions before awarding grants.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for the federal government and is considered best practice for non-federal entities. Green Book Principle 12.03, "Documentation of Responsibilities Through Policies," states that management must determine the policies necessary to operate based on the objectives and related risks for the unit and must document the policy in the appropriate level of detail to allow management to effectively monitor the control activity.

OCJP's fiscal staff should complete documented evaluations of agencies' financial conditions to ensure that insolvent agencies do not receive grant funds.

Updates to Monitoring Plans

We found that OCJP staff did not send an updated plan to the Central Procurement Office (CPO) to indicate that it did not perform monitoring for 4 of 60 contracts in our sample (7%) from the office's original fiscal year 2018 monitoring plan.

CPO Policy 2013-007 requires agencies to "develop and submit an annual monitoring plan for review and approval to the Central Procurement Office" which "shall include . . . [a]ll subrecipient contracts the Agency will monitor during its monitoring cycle." This policy also requires agencies to "submit any proposed changes to an approved monitoring plan and an explanation for each proposed change to the Central Procurement Office for review and approval" and to "document any approved changes to an existing plan."

According to the OCJP Deputy Director, OCJP may enter into new subrecipient contracts, terminate existing contracts, or move planned monitoring to a different year after it submits its monitoring plan to the CPO. OCJP staff document these changes to the monitoring plan internally on a spreadsheet, but OCJP management told auditors that a former CPO Grants Manager had stated that they did not need to send these updates to CPO. If there is a change to the monitoring plan, the Director of OCJP should ensure staff submit the change to CPO as the current CPO policy requires.

Background Checks

BACKGROUND CHECKS

The Department of Finance and Administration's Human Resources Office is responsible for coordinating the background checks for employees who have access to sensitive information or are required to have particular types of background checks. According to the department's Policy 35, "Criminal Background Check Policy," these are positions "that involve or have potential to involve access to sensitive information, including data from other agencies . . . in the course of their job duties."

Two department initiatives involving employee transfers increased Human Resources' staff workload to process the required background checks. The first initiative, which began in 2012, centralized statewide accounting functions by transferring executive-branch agencies' fiscal staff to the department's Division of Accounts. The department's second statewide initiative began in 2014 and involved the Division of Strategic Technology Solutions' (STS) plan to transfer executive-branch information technology staff to the department. STS also implemented the NextGen initiative, which aligned the state's information technology job classifications and requirements more closely with the private sector. (For additional information regarding centralization, see the Division of Accounts section on page 53 and the Division of Strategic Technology Solutions section on page 37.)

Staff assigned to both the Division of Accounts and STS have access to sensitive and protected information. The department's most current Policy 35, "Criminal Background Check Policy," has been effective since September 30, 2017, and requires the Human Resources Office to

- determine required background checks before hiring, promoting, or transferring employees;
- conduct or contact appropriate entities to conduct any required background checks; and
- maintain background checks within a background check file separate from the regular employee personnel files.

Appendices in the department's Policy 35 identify the employee positions that require background checks. In addition, STS staff maintain a list of divisional positions requiring background checks that are not yet reflected in the policy appendices. The Department of Finance and Administration's interdepartmental agreements with the Department of Children's Services require the Department of Finance and Administration to perform background checks for those STS and Division of Accounts employees working on Children's Services responsibilities. Depending on an employee's position, the department performs one or more of the checks detailed in **Table 11** prior to the employee beginning work in these divisions.

Table 11
Background Checks Required for Department of Finance and Administration Employees

Check Name/Type	Description of Checks Performed	Positions Requiring Checks	Authority
Name-based	Basic name-based check of individual's background performed by the Tennessee Bureau of Investigation (TBI)	"Sensitive positions" (i.e., positions "that involve or have potential to involve access to sensitive information, including data from other agencies . . . in the course of their job duties")	Department of Finance and Administration Policy 35
Criminal Justice Information System (CJIS)	Fingerprint check against state and federal criminal records maintained by TBI and the Federal Bureau of Investigation	"All employees of the division of strategic technology solutions having elevated and privileged access to criminal justice information systems or to information accessed via criminal justice information systems"	Sections 8-50-112 and 4-3-5503, *Tennessee Code Annotated*
Federal Tax Information	• Fingerprint check as described for CJIS • Local background checks for areas where the subject has lived, worked, or attended school in the previous five years	Positions with access to federal tax information	Internal Revenue Service *Publication 1075* and Section 4-3-105, *Tennessee Code Annotated*
Department of Children's Services (DCS)	• Fingerprint check as described for CJIS • Local background checks for areas where the subject has lived for the previous six months • Driving records and moving violations check • National Sexual Offender Registry clearance • Tennessee Department of Health Abuse Registry clearance	"All DCS/Contract Agency employees that may or may not have direct contact with children/youth, or who work with sensitive or confidential information [related to DCS]"*	Interdepartmental agreements between DCS and Department of Finance and Administration for centralization; DCS Administrative Policies and Procedures 4.1;* and Section 71-3-507(g)(1)(A), *Tennessee Code Annotated*

*Based on the description of individuals who require background and registry checks in DCS' policy, employees who were centralized by the Department of Finance and Administration's Division of Accounts and STS require checks based on their access to sensitive and confidential information. The agreements between DCS and the Department of Finance and Administration state that the Department of Finance and Administration would complete the necessary checks for new and transferring employees.

Audit Results

1. **Audit Objective:** Were Human Resources Office management's internal controls over background and registry checks properly designed and implemented to ensure the proper performance of the necessary checks?

Conclusion: Office management did not update its background check policy to stay current with the needs of the Division of Accounts and STS. See **Finding 2**.

2. **Audit Objective:** Did office management obtain background and registry checks for employees in accordance with state statute, department policy, interdepartmental agreements, and STS' list of positions requiring background checks?

   Conclusion: Office management did not obtain background and registry checks for all employees in accordance with state statute, department policy, interdepartmental agreements, and STS' list of positions requiring background checks. See **Finding 2**.

3. **Audit Objective:** Did office management and staff maintain proper background check records?

   Conclusion: Office management and staff could not provide all documentation for our review of background checks and had difficulty locating documentation in response to our audit requests. See **Finding 2**.

Methodology to Achieve Objectives

We discussed background checks with the Human Resources Director and Assistant Director, former Human Resources and Talent Management Director, Internal Audit Director, Deputy Chief of Accounts, and Associate Counsel. We reviewed state statute, Internal Revenue Service *Publication 1075,* Department of Finance and Administration Policy 35, interdepartmental agreements, and the position list provided by STS that was in effect for the period under audit.

For STS employees involved in centralization, we obtained a list of employees who were transfers, promotions, or new hires for the period of September 1, 2015, through April 1, 2019. From the population of 1,821 employee position changes, we selected a nonstatistical, random sample of 60 employee position changes and inspected background check files that Human Resources Office staff provided for these employees.

For Division of Accounts employees of centralized agencies, we obtained a monthly list of employees for the period September 1, 2015, through April 1, 2019. From the population of 557 employees, we selected a nonstatistical, random sample of 57 employees[38] and inspected background check files that Human Resources Office staff provided.

[38] After beginning our audit work, we expanded our planned sample size from 25 items to 60, based on preliminary results. We subsequently found that 3 individuals only changed divisions within the department and did not require a background check. Based on the errors noted with the other 57 employees, it was not necessary to pull extra sample items to replace the 3 employees.

Finding 2 – Human Resources Office management did not perform employee background checks as required or prioritize updating the department's background check policy and procedures to stay current with the needs of the Division of Accounts and Strategic Technology Solutions

Based on our testwork and our discussions with management, we found that the Department of Finance and Administration had not updated its Policy 35, "Criminal Background Check Policy," to incorporate the department's NextGen and centralization initiatives; the policy was last updated September 30, 2017. Specifically, the department had not updated the Policy 35 appendices, which list employee positions requiring background checks. We also determined that management had not updated the policy to incorporate the specific background and registry check requirements outlined in its interdepartmental agreements with the Department of Children's Services.

Our testwork also found that the Human Resources Office had not completed the necessary background and registry checks for all employees and had not maintained background check documentation for some employees in our sample.

Background Check Policy Not Updated

As of August 1, 2019, the department has not updated the Policy 35 appendices to include position transfers associated with the Division of Accounts' and the Division of Strategic Technology Solutions' (STS) centralization efforts or to reflect the position number and title changes associated with the NextGen initiative since the last revision dated September 2017. We found that Accounts transferred staff from 10 agencies and STS transferred staff from 4 agencies subsequent to September 2017. STS also continues to change positions under the NextGen initiative, resulting in

- new position numbers and titles;
- updates to existing position titles; and
- new requirements or updates to existing requirements.

The Associate Counsel stated that department management does not plan to update Policy 35 until after the department fully completes the centralization and NextGen initiatives in order to include all necessary changes in one update. The Human Resources Assistant Director indicated they expect to complete NextGen in September 2019 and update Policy 35 by December 2019.

Background Check Documentation Not Maintained

Our testwork found that the Human Resources Office lacked a single repository or a background check file for each employee as required by Policy 35; as such, the Human Resources Director could not provide documentation for seven Accounts employees and four STS employees when we requested to review background checks for our testwork sample of employees.[39]

[39] The Human Resources Director provided us with the missing documentation for four of the seven Accounts employees and all four of the STS employees at later dates, after we made our initial reviews of the available files.

In further discussion, we were told that Human Resources Office staff maintained background check results in three separate locations on their internal shared drive, as well as two separate physical files. As of our first review on May 14, 2019, the Orientation, Compliance, and Emergency Services Coordinator, who is responsible for performing name-based background checks, stated that he had identified the third location on the shared drive "recently." Although Human Resources Office staff was later able to provide some of the background check information we requested, they could not locate three background check results. The Human Resources Director indicated that the department was in the early stages of consolidating all background check results into a single repository on FileNet, a document storage system.

Policy 35 requires the department to maintain background check records in a confidential background check file separate from the employee's personnel file.

All Applicable Background Checks Not Performed

Policy 35 states that "no candidate shall be permitted to begin work in the new position until the completion of the background check process." We found that the Human Resources Office did not perform background checks before new and transferring employees filled positions or before promoting existing employees to new positions, including those identified as sensitive positions.

From Accounts and STS staff, we found the Human Resources Office did not perform the necessary background checks for

- 23 of 57 Accounts employees (40%), and
- 29 of 60 STS employees (48%).

See details in **Tables 12** and **13**.

Table 12
Division of Accounts
Results of Testwork – Employee Background Checks Not Performed

Background Checks	Sample Size	Number of Errors*
Name-based	57	15
Federal Tax Information	15	9
Department of Children's Services-required Registry Checks	10	9

*In some instances, employees require more than one type of background check, resulting in a duplication of errors overall. We have reported an error for each type even though the error may represent the same employee that required multiple checks given the nature of his or her duties.

Table 13
Strategic Technology Solutions
Results of Testwork – Employee Background Checks Not Performed

Background Checks	Sample Size	Number of Errors*
Name-based	60	13
Criminal Justice Information System	40	16
Federal Tax Information	23	9
Department of Children's Services-required Registry Checks	3	3

*In some instances, employees require more than one type of background check, resulting in a duplication of errors overall. We have reported an error for each type even though the error may represent the same employee that required multiple checks given the nature of his or her duties.

We also noted in our testwork that the office appeared to have performed late background checks for an additional 19 Accounts employees and 17 STS employees. Because management did not maintain current policies and ensure staff followed necessary procedures, we were not able to determine that the background checks were performed timely as required.

Name-based Background Checks

Department management could not provide an exact date when they began requiring name-based background checks of all Accounts employees; the Deputy Chief of Accounts indicated they decided in 2016 or 2017 to require these checks of all staff. Because management did not document these new policies and procedures, we were not able to determine that the background checks were performed as required for 10 Accounts employees. For the remaining 5 Accounts employees in our testwork, the employee should have received a name-based background check. For the 13 STS employees, office management did not perform name-based background checks.

Criminal Justice Information System

For the 16 STS employees, office management did not perform Criminal Justice Information System background checks.

FTI Background Checks

According to the former Director of Human Resources and Talent Management, the department experienced delays in performing Federal Tax Information (FTI) background checks on current employees[40] because of difficulties implementing the new FTI background check process with the state's fingerprinting vendor. According to the former Director of Human Resources and Talent Management, the department could not proceed with existing employee FTI background checks until June 8, 2018. Despite this explanation from management, we identified 19 employees without background checks and 10 employees on whom the department did not

[40] Management was still permitted to perform FTI background checks for new hires after the FTI policy took effect on September 30, 2017.

perform background checks until 4 to 10 months after the June 8, 2018, date when the vendor issues were resolved.

Department of Children's Services Checks

Although agreements were signed in January and July 2018, the Associate Counsel indicated that department management did not receive the Department of Children's Services' (DCS) background check policy until August 2018, approximately one month after DCS staff transferred to Accounts and seven months after staff transferred to STS. She also stated that management understood that DCS had already performed necessary background checks for the existing DCS employees who were transferring to STS and Accounts.

The Associate Counsel maintains that STS did not have an enforceable agreement with DCS. We obtained from STS the Memorandum of Understanding between DCS and STS that states "STS will perform employee screening for new and existing state employee personnel directly supporting DCS (such as fingerprinting background checks) as required," but the Associate Counsel indicated the agreement was not valid since it lacked the signature from Commissioner of the Department of Finance and Administration. However, both the Commissioner of DCS and the STS Business Domain Director signed the agreement.

We also found that the Department of Finance and Administration has agreements with other agencies that also do not include the Commissioner's signature; yet agreements with other agencies, such as the Department of Human Services, were signed by the Commissioner and included the same employee screening provision. Regardless of the Commissioner's signature or the technicality of an enforceable agreement, the Department of Finance and Administration and STS have a fundamental responsibility to perform background checks and proper employee screenings to protect sensitive and personal information for the state agencies that rely on STS' services.

<u>Overall Cause, Effect, and Criteria</u>

As stated in Policy 35, "it is incumbent on the Department of Finance and Administration ('the Department') to ensure that all department employees are qualified and exhibit the highest degree of honesty and trustworthiness." By not performing background checks as required for employees with access to accounting records and information systems, the department jeopardizes the safety and wellbeing of the populations served by other agencies.

Management inconsistently applied Policy 35 and its position appendices. Management stated that some background checks were not required because these positions were not included. However, we found instances where background checks were performed for positions that were not in the appendices. According to the Director of Human Resources and Associate Counsel, because they were continuing to transfer employees to the department under the two centralization initiatives and the NextGen initiative, management did not want to update Policy 35 until these initiatives were complete to avoid multiple "piecemeal" policy updates. Without timely updates to the department's policy and procedures, Human Resources Office staff lack clear, comprehensive, and up-to-date guidance on which employees need background checks.

Management cannot ensure that employees are properly vetted when background checks are not performed as required.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards and is considered best practice for non-federal entities. As an example of the periodic review of control activities, Green Book Section 12.05 states,

> Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. . . . Management considers these changes in its periodic review.

Recommendation

The Commissioner of the Department of Finance and Administration should ensure that management immediately update departmental policy and procedures and that Human Resources Office staff perform all background checks necessary to comply with federal and state statute and interdepartmental agreements and to protect sensitive data.

Management's Comment

We concur. The Department is updating the background check policy to fully represent the variety of checks now conducted and anticipates these updates being completed by the end of 2019. Additionally, in order to place a greater focus on background checks, a recently added HR Generalist 2 position will, for at least the first 9 to 12 months, be solely dedicated to the background check process, including ensuring the necessary checks are conducted timely, maintaining background check records as well as FTI and CJIS training logs, and ensuring the lists of positions requiring background checks are kept up to date.

Public Records Management

Tennessee Comptroller of the Treasury

PUBLIC RECORDS MANAGEMENT

General Background

The Public Records Commission is required by state law to determine the proper disposition of the state's public records and directs the Secretary of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency.

Section 10-7-301(6), *Tennessee Code Annotated,* defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

Public officials are legally responsible for creating and maintaining public records that document any government business transactions. These records provide evidence of government operations and accountability to citizens. Therefore, when it is time for these documents to be destroyed, agencies must follow the process of an approved records disposition authorization (RDA). RDAs describe the public record, retention period, and destruction method for each record type under an agency's authority. Upon destruction of a public record, an agency must submit a certificate of destruction to the Records Management Division.

In March 2013, the Public Records Commission requested that all state agencies amend or retire their RDAs and create new RDAs for all public records currently in use. Furthermore, rules established by the Public Records Commission required that "all records . . . must be maintained for a minimum of five years unless otherwise indicated by the Commission, rules, or applicable federal and state laws."

Department's Records Management Process

At the time of the Public Records Commission's 2013 request, the Department of Finance and Administration had 298 RDAs. In October 2018, the Records Management Division conducted a records assessment to determine whether the department had made progress with reviewing its RDAs. The purpose of the assessment was to

- measure the department's records management process;
- identify the RDAs used and if new ones were needed; and
- assess the volume of records for each RDA.

The Records Management Division issued a report to the department that noted six recommendations about the creation or revision of RDAs, the review or inventory of records, and the transfer or destruction of records. Specifically, the recommendations covered the areas for the Division of Benefits Administration, the Division of Budget, the Division of Strategic Technology Solutions, the Office of Business and Finance, the Office of Criminal Justice Programs, and

Volunteer Tennessee; as noted in **Finding 3**, the Division of Accounts and the Commissioner's Office opted out of the assessment.

Audit Results

1. **Audit Objective:** Did department management comply with the Public Records Commission's 2013 request to review all RDAs?

   Conclusion: Department management did not comply with the commission's request to update all existing RDAs or to determine if the department needed to create new RDAs for its public records. Since March 2013, the department has updated 137 of the 298 RDAs, leaving 161 related to public records created by the Division of Accounts yet to be reviewed for deletion or revision. Furthermore, we have no information as to this division's analysis of whether it needed to create new RDAs for records created without a corresponding RDA. See **Finding 3**.

2. **Audit Objective:** Did department management implement the Records Management Division's recommendations from the 2018 RDA assessment report?

   Conclusion: Department management did not implement the recommendations included in the assessment report. See **Finding 3**.

Methodology to Achieve Objectives

We interviewed the department's Records Officer and the Chief of Accounts to gain an understanding of the records management process. We reviewed the Secretary of State's *Records Management Best Practices and Procedures* and *Tennessee Code Annotated* to assess the department's records management processes. We reviewed the department's RDAs to determine whether the department had, at the Records Management Division's 2013 request, reviewed its RDAs for deletion or revisions and to identify and develop new RDAs to cover new public records or existing records not associated with an existing RDA. To determine if the department implemented the Records Management Division's 2018 recommendations, we reviewed the division's assessment and discussed its recommendations with the department's Public Records Officer.

Finding 3 – The Division of Accounts has not reviewed its records disposition authorizations following the 2013 request from the Public Records Commission, and several divisions have not implemented the recommendations from the Records Management Division's assessment report

Unreviewed RDAs

During our analysis of the Department of Finance and Administration's records disposition authorizations (RDAs), we determined that the department had not required the Division of Accounts to review, update, or retire 161 division-specific RDAs (representing 54% of the department's 298 RDAs at the time of the 2013 request.) Upon further discussion, we also found that 66 of the division's 161 RDAs (41%) have specified retention periods of less than 5 years, which is shorter than the current retention period recommended by the Public Records Commission and the Department of State's Records Management Division. Additionally, we found no evidence that the Division of Accounts attempted to identify whether it needed new RDAs to cover its public records inventory.

Section 10-7-509(a), *Tennessee Code Annotated*, states that "the disposition of all state records shall occur only through the process of an approved records disposition authorization." Furthermore, according to the Department of State's *Records Management Best Practices and Procedures*,

> Retention schedules are not merely suggestions. Records cannot be destroyed before the stated period, nor can they be retained longer than the stated period unless they are involved in an investigation, litigation, audit, or request pursuant to the Tennessee Open Records Act.

Based on discussions with staff at the department and the Records Management Division, the Records Management Division has communicated to the Director of the Division of Accounts several times since 2013, through an in-person meeting and emails, about the need to update RDAs in the Division of Accounts. According to the division's Chief of Accounts, the division has developed a plan to update its RDAs but has not yet fully executed it.

Without a process to periodically review, create, and maintain updated RDAs, the division risks prematurely destroying important public records and hindering the department's responsibility to protect public records. Without updated RDAs, the department also risks incurring additional expenses and other burdens to retain documents for longer than otherwise necessary.

<u>Lack of Implementation of Records Assessment Recommendations</u>

The department's Division of Accounts and the Commissioner's Office opted out of the assessment due to unavailability of staff and busy schedules. Therefore, the Records Management Division was limited in its ability to determine if the department's public records recordkeeping practices met state standards.

Department management has implemented only one of the six recommendations in the assessment report and has begun making progress on another. The remaining recommendations have not been implemented because the Division of Accounts' Office of Business and Finance has not made the other divisions aware of the recommendations in the assessment report.

Without ensuring that all departmental RDAs are reviewed and updated, management cannot ensure that it has maintained the public records for an adequate public inspection period and/or for an audit. Additionally, without implementing recommendations identified in the public records assessment, department management cannot fully protect its public records as recommended by the Public Records Commission and the Records Management Division.

Recommendation

The Commissioner of the Department of Finance and Administration should ensure that Division of Accounts management acts immediately to follow the requests and recommendations offered by the oversight bodies by amending and retiring existing RDAs and creating new ones as needed.

Management's Comment

We concur. Management of the Division of Accounts will take immediate action to refresh, re-prioritize, and accelerate the timeline of its previously established plan to review, update, and/or retire the 161 division-specific RDAs noted in this finding, as well as identify whether any new RDAs are needed to cover its public records inventory. The target date for the completion of the refreshed plan is September 30, 2020. In addition, the Division of Accounts' Office of Business and Finance will make all divisions aware of the recommendations in the Records Management Division assessment report on or before October 31, 2019.

To assist in more fully understanding, and assessing the risk associated with, the unreviewed RDAs situation, the following additional context is also provided by the Division of Accounts management:

- According to the Division's previously completed analyses, 121 of the 161 division-specific RDAs (75%) noted in this finding have no records stored under them and are ready to be retired. Only 1 of the remaining 40 RDAs has a specified retention period of less than 5 years (or the retention period recommended by the Public Records Commission), and all of the records stored under this RDA are more than 5 years old.
- The majority of the records stored under the aforementioned 40 RDAs have been stored for a period that exceeds the RDA identified retention period. In order to mitigate the risk of a record being destroyed that, to comply with post bond issuance requirements, must be retained for an extended period, the Division considers it necessary to complete a thorough review of these records prior to disposal.

Information Systems Access

TENNESSEE
COMPTROLLER
OF THE TREASURY

INFORMATION SYSTEMS ACCESS

The Department of Finance and Administration relies on various information systems, databases, and applications to maintain information that supports the department's activities, as well as most of state government's accounting functions through Edison, the state's accounting system. The Division of Strategic Technology Solutions (STS) is responsible for providing information technology and desktop support to the department's staff, as well as to staff of other state agencies. STS is also responsible for the department's computer systems and network, which allows employees access to the department's files.

Audit Results

Audit Objective: Did the department and all appropriate divisions follow state information systems security policies regarding the security, accuracy, and reliability of the department's hardware and software?

Conclusion: Department and appropriate division management did not follow state information systems security policies and industry best practices regarding information systems access controls in two areas. See **Finding 4**.

Methodology to Achieve Objective

We evaluated management's information systems controls and policies based on the state security policies and industry best practices.

Finding 4 – The department did not provide adequate internal controls in two specific areas

The Department of Finance and Administration did not design and monitor internal system controls in two specific areas related to its information systems and applications. Ineffective implementation of internal controls increases the likelihood of fraud, errors, or data loss. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. Additionally, pursuant to Standard 7.41 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. We provided the department with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Department and appropriate division management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. Processes are being evaluated and updated to ensure appropriate controls are in place and operating effectively.

Tennessee Code Annotated

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE CODE ANNOTATED

Tennessee Code Annotated is the compilation of the state's laws that includes, among other provisions, subsections establishing the powers, duties, and responsibilities of state agencies such as the Department of Finance and Administration.

Audit Results

Audit Objective: Were Sections 4-3-1001 through 4-3-1022, *Tennessee Code Annotated*, up to date?

Conclusion: Several statutes use outdated terminology and assign the department responsibility for functions it no longer performs. See **Matter for Legislative Consideration**.

Methodology to Achieve Objective

We reviewed Sections 4-3-1001 through 4-3-1022, *Tennessee Code Annotated*.

Matter for Legislative Consideration

Sections 4-3-1001 through 4-3-1022, *Tennessee Code Annotated*, establish the organization and powers of the Department of Finance and Administration. During our audit, we identified multiple instances where state statutes described functions that the department no longer performs (such as energy management programs now under the Department of Environment and Conservation and real estate management now under the Department of General Services) and used antiquated terminology (such as "switchboard" and "stenographic pools"). The General Assembly, in coordination with department management, may wish to consider amending *Tennessee Code Annotated* to reflect the duties the Department of Finance and Administration now performs, as well as modern technology.

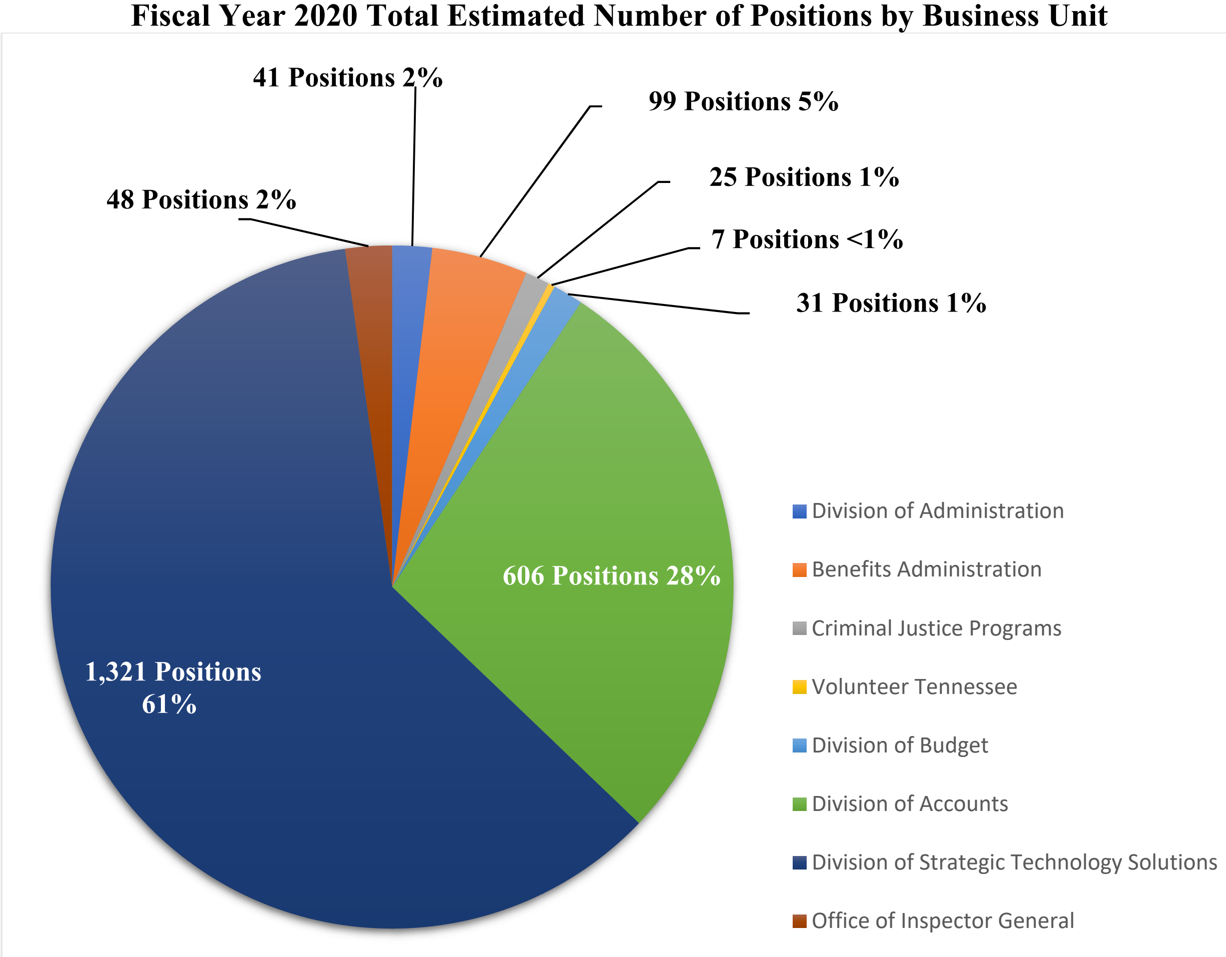
Staff Turnover

STAFF TURNOVER

The Department of Finance and Administration has 2,178 approved full-time positions according to the state's fiscal year 2020 budget; as of July 1, 2019, 1,982 positions were filled. As shown in **Chart 1**, the majority of the department's workforce—88%—is assigned to 4 of the 10 business units:

- the Division of Accounts has 606 positions, or 28% of the total approved full-time positions;
- the Division of Strategic Technology Solutions comprises three business units with 1,321 positions, or 61% of the total approved full-time positions:
  - Strategic Technology Solutions (STS) has 484 positions, or 22% of the total;
  - Enterprise Resource Planning has 139 positions, or 6% of the total; and
  - Business Solutions Delivery has 698 positions, or 32% of the total.

Chart 1
Department of Finance and Administration
Fiscal Year 2020 Total Estimated Number of Positions by Business Unit



Source: Tennessee State Budget, fiscal year 2019–2020.

Department of Finance and Administration's Separation Statistics

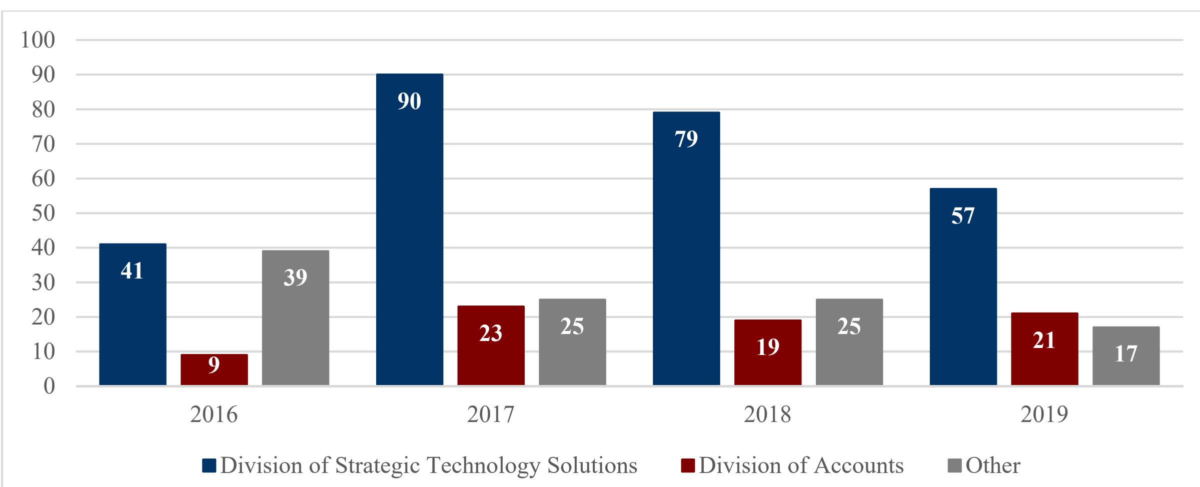
Using Edison, we obtained a list of employees on staff, including separations, between July 1, 2015, and December 28, 2018, and determined the number of employees and the rate of turnover for full fiscal years 2016 through 2018 and for half of the 2019 fiscal year (through December 28, 2018). The department experienced 8.3% turnover in fiscal year 2016, 9.6% in fiscal year 2017, 6.9% in fiscal year 2018, and 4.3% in fiscal year 2019 as of December 28, 2018. Fiscal years 2017 and 2018 had the most separations,[41] with 138 and 123, respectively. Most of those separations occurred in the Division of Strategic Technology Solutions, as shown in **Table 14** and **Chart 2**.

Table 14
Department of Finance and Administration Turnover Rates
Fiscal Years 2016 to 2019 (Through December 28, 2018)

	Separations			Average Employees per Year	Turnover Rate
Fiscal Year	Department-wide	Division of Strategic Technology Solutions	Division of Accounts	Department-wide	Department-wide
2016	89	41	9	1,068	8.3%
2017	138	90	23	1,441	9.6%
2018	123	79	19	1,786	6.9%
2019	95	57	21	2,211	4.3%

Source: Edison, the state's enterprise resource planning system.

Chart 2
Department of Finance and Administration
Turnover in Division of Strategic Technology Solutions and Division of Accounts
Fiscal Years 2016 to 2019 (Through December 28, 2018)



Source: Edison, the state's enterprise resource planning system.

[41] Separations from the department include employees who the department dismissed, who retired, who voluntarily resigned, or who were voluntarily bought out.

Based on discussion with the Talent Management Director, the major factors affecting the department's recent staffing levels have been the NextGen initiative and centralization efforts in the Division of Accounts and Strategic Technology Solutions (STS). The department's NextGen initiative updated IT job classifications and requirements to more closely align with the private sector, with the intention of helping the department retain the best talent. The department also centralized state government's accounting and information technology functions by transferring positions from state agencies to the Division of Accounts and STS, respectively. (See STS and Division of Accounts sections of the report, pages 37 and 53, respectively, for additional information regarding centralization efforts.) Due to the department's increasingly large number of employees in IT and accounting positions, most of its separations are also in these business units.

Audit Results

Audit Objective: Did the department experience any turnover that affected the department's ability to meet its mission?

Conclusion: Based on our analysis of the department's turnover rates for fiscal years 2016, 2017, 2018, and 2019 (through December 28, 2018) and discussions with management, the department's employee turnover did not affect the department's ability to meet its mission.

Methodology to Achieve Objective

To achieve our objective, we obtained data about the number of department employees and separations from Edison, the state's enterprise resource planning system; calculated turnover rates; and analyzed these rates to gain an understanding of turnover trends. We analyzed turnover rates by division to determine divisions with higher turnover. In addition, we interviewed the department's Human Resources Director and its Director of Talent Management.

APPENDICES

APPENDIX 1
Edison Business Units

317.01	Administration
317.02	Budget
317.03	Strategic Technology Solutions
317.04	Benefits Administration
317.05	Accounts
317.06	Criminal Justice Programs
317.10	State Architect's Office
317.11	Volunteer Tennessee
317.12	Office of Inspector General
317.17	Enterprise Resource Planning
317.20	Business Solutions Delivery

APPENDIX 2
Department of Finance and Administration
Expenditure and Revenue Information by Fiscal Year
Fiscal Years 2017 Through 2019
UNAUDITED INFORMATION

Description	2016	2017	2018	2019
Regular Salaries	$ 58,461,098	$ 81,345,722	$ 101,930,445	$ 126,725,869
Longevity	$ 1,055,699	$ 2,127,695	$ 2,392,850	$ 3,043,462
Overtime	$ 512,886	$ 536,229	$ 640,255	$ 580,850
Benefits	$ 22,098,816	$ 30,994,438	$ 41,436,462	$ 49,319,715
Subtotal Personnel	**82,128,500**	**115,004,086**	**146,400,013**	**179,669,897**
Travel	265,631	320,337	428,249	530,993
Printing and Duplicating	3,214	1,176	17	27,307
Utilities and Fuel	3,974	3,413	2,719	4,679
Communications	30,755,040	31,902,240	31,873,177	33,440,555
Maintenance, Repairs, and Service	4,868,474	6,682,197	7,149,029	5,592,887
Professional Services Third Party	556,985	774,254	8,016,667	14,911,878
Supplies and Materials	879,087	1,095,402	1,486,428	1,037,409
Rentals and Insurance	71,844	69,015	72,669	93,650
Motor Vehicle Operations	4,020	3,951	5,177	16,641
Awards and Indemnities	89,131	26,055	43,469	27,531
Grants and Subsidies	24,609,902	31,324,257	39,269,786	57,578,775
Unclassified	21,119	18,919	23,200	24,818
Stores for Resale/Reissue/Mfg.	1,471,510	43,436	28,662	17,860
Equipment	88,427	75,837	119,221	87,823
Land	-	-	-	-
Buildings	-	-	198,473	152,914
Discounts Lost	-	-	-	-
Highway Construction	-	-	-	-
Training	1,814,928	2,063,675	1,909,007	2,658,303
Data Processing	58,897,992	66,930,348	78,199,374	67,277,821
Professional Services State Agencies	22,233,128	23,619,681	29,526,321	26,290,527
Retirement of Debt	-	-	-	-
Interest on Debt	24,449	70,516	57,208	31,958
Trustee Fees	-	-	-	-
Depreciation	21,262,617	21,660,717	21,591,507	10,899,362
Loss on Disposal of Equipment	580,988	45,399	832,757	1,148,228
Reallocations Plant Work Order	-	-	-	-
Subtotal Operations	**168,502,470**	**186,730,833**	**220,833,126**	**221,851,927**
Total Expenditures	**$ 250,630,970**	**$ 301,734,919**	**$ 367,233,140**	**$ 401,521,825**

Description	2016	2017	2018	2019
Reserve - Unencumbered Bal	5,082,804	5,583,422	17,877,384	7,628,034
Reserve - Capital Outlay	-	-	-	-
Reserves	-	-	-	-
State Appropriations	20,532,400	26,782,265	24,299,500	17,694,200
Total Appropriation	**25,615,204**	**32,365,688**	**42,176,884**	**25,322,234**
Federal Revenue	22,871,393	30,082,585	37,523,592	56,146,822
Federal Capital Grants	-	-	-	-
Refund Prior Year Federal Expense	68,013	106,837	63,080	22,804
Total Federal	**22,939,406**	**30,189,422**	**37,586,672**	**56,169,627**
Counties	12,756	12,974	-	12,859
Refund of Prior Year Local Expense	-	-	-	-
Cities	131,440	-	-	-
Non-Governmental	121	-	-	200.00
Other State	-	-	-	-
Current Services	1,194,629	2,697,519	6,983,155	7,478,209
Interest Income	32,586	74,009	122,654	228,974
Inter-Departmental	214,591,455	264,401,609	298,894,985	324,076,401
Interdepartmental - CU	1,681,991	1,619,240	1,660,100	1,596,528
Current Services - Licenses	-	-	-	-
Current Services - Fines	-	-	-	-
Subtotal Other Revenue	**217,644,980**	**268,805,353**	**307,660,896**	**333,393,174**
Total Funding	**$ 266,199,591**	**$ 331,360,464**	**$ 387,424,452**	**$ 414,885,036**

Source: Edison, the state's enterprise resource planning system.

APPENDIX 3
Title VI Information

Pursuant to state statute, the Tennessee Human Rights Commission (commission) is responsible for verifying that state governmental entities receiving federal financial assistance comply with the requirements of Title VI of the Civil Rights Act of 1964 (Title VI), which prohibits discrimination on the basis of race, color, and national origin in federally funded programs and activities. The commission serves as the central coordinating agency for executive-branch departments and agencies and provides technical assistance, consultation, and resources to encourage and assist departments and agencies with compliance.

By October 1 of each year, state departments and agencies receiving federal funds must submit Title VI implementation plans to the commission describing how they will meet Title VI requirements. The commission staff perform reviews of all implementation plans each year to ensure the plans include limited English proficiency (LEP) policies and procedures, data collection procedures, subrecipient monitoring, and whether departments provide sufficient Title VI training to staff. The commission staff also perform detailed on-site compliance reviews of a select number of state agencies each year to ensure that agencies are following the implementation plans.

The commission issues the report *Tennessee Title VI Compliance Program* (available on its website at https://www.tn.gov/humanrights.html), which covers the status of the Title VI compliance for the State of Tennessee. The report describes the implementation plan review process, the results of compliance reviews completed, details of federal dollars received by state agencies, Title VI complaints received, and Title VI implementation plan submission dates.

According to the commission's fiscal year 2017–2018 report (the most recent report available as of July 2019), the commission's implementation plan review of the Department of Finance and Administration's 2017–2018 Title VI implementation plan resulted in no findings. See the charts for a breakdown of the department's employee gender and ethnicity as of July 6, 2019.

Employees by Gender	
Gender	**Number of Employees**
Male	1,082
Female	897

Employees by Ethnicity	
Gender	**Number of Employees**
White	1,433
Black or African American	363
Asian	106
Hispanic or Latino	22
American Indian or Alaska Native	2
Native Hawaiian or Other Pacific Islander	1
Other Ethnicity	51
Two or More Ethnicities	1

APPENDIX 4
List of Reversion Targets for State Agencies, for Fiscal Years 2016 Through 2018

Reversion Targets for Fiscal Year 2016		
Entity	**Reversion Target**	**Reversion target met? Y/N**
Attorney General and Reporter	$ 1,600,000	Y
Board of Parole	104,100	Y
Claims and Compensation	N/A	N/A
Commissions	1,444,400	Y
Human Rights Commission		
Public Utility Commission		
Advisory Commission on Intergovernmental Relations		
Commission on Children and Youth		
Commission on Aging and Disability		
Health Services and Development Agency		
Council on Developmental Disabilities		
Alcoholic Beverage Commission		
Arts Commission		
State Museum		
TN Housing Development Agency		
Comptroller of the Treasury	3,421,700	Y
Court System	192,500	Y
District Attorneys General Conference	2,279,900	N
District Public Defenders Conference	2,215,000	Y
Emergency and Contingency Funds	N/A	N/A
Executive Department	129,300	Y
Fiscal Review Committee	N/A	N/A
Legislature	N/A	N/A
Miscellaneous Appropriations	33,866,000	Y
Office of Post-Conviction Defender	105,300	Y
Other Post-Employment Benefits Liability	N/A	N/A
Secretary of State	2,654,600	Y
State Building Commission	N/A	N/A
Strategic Health-Care Programs (Department of Finance and Administration)	N/A	N/A
Tennessee Rehabilitative Initiative in Correction	N/A	N/A
Tennessee Wildlife Resources Agency	N/A	N/A
Treasury Department	65,000	N
Department of Agriculture	2,765,400	N
Department of Children's Services	10,244,200	Y
Department of Commerce and Insurance	2,153,300	Y
Department of Correction	1,950,500	Y

Department of Economic and Community Development	1,170,100	Y
Department of Education	24,048,900	N
Department of Environment and Conservation	519,500	Y
Department of Finance and Administration	630,400	Y
Department of Finance and Administration Division of TennCare	79,932,900	N
Department of Financial Institutions	1,522,800	Y
Department of General Services	269,400	Y
Department of Health	4,329,700	Y
Department of Human Resources	N/A	
Department of Human Services	4,500,000	Y
Department of Intellectual and Developmental Disabilities	717,000	Y
Department of Labor and Workforce Development	823,000	Y
Department of Mental Health and Substance Abuse Services	4,687,000	Y
Department of Military	33,300	Y
Department of Revenue	5,544,800	Y
Department of Safety	4,547,500	Y
Department of Tourist Development	429,800	Y
Department of Transportation	N/A	N/A
Department of Veterans Services	253,700	N
Tennessee Bureau of Investigation	654,500	N
Tennessee Higher Education Commission	300,000	Y

Reversion Targets for Fiscal Year 2017		
Entity	**Reversion Target**	**Reversion target met? Y/N**
Attorney General and Reporter	$1,600,000	Y
Board of Parole	585,500	N
Claims and Compensation	N/A	N/A
Commissions	2,266,300	N
Human Rights Commission		
Public Utility Commission		
Advisory Commission on Intergovernmental Relations		
Commission on Children and Youth		
Commission on Aging and Disability		
Health Services and Development Agency		
Council on Developmental Disabilities		
Alcoholic Beverage Commission		
Arts Commission		

State Museum		
TN Housing Development Agency		
Comptroller of the Treasury	3,421,700	Y
Court System	1,000,000	Y
District Attorneys General Conference	2,113,700	N
District Public Defenders Conference	1,745,800	Y
Emergency and Contingency Funds	N/A	N/A
Executive Department	90,000	Y
Fiscal Review Committee	N/A	N/A
Legislature	N/A	N/A
Miscellaneous Appropriations	20,000,000	Y
Office of Post-Conviction Defender	313,400	Y
Other Post-Employment Benefits Liability	N/A	N/A
Secretary of State	2,654,600	Y
State Building Commission	N/A	N/A
Strategic Health-Care Programs (Department of Finance and Administration)	N/A	N/A
Tennessee Rehabilitative Initiative in Correction	N/A	N/A
Tennessee Wildlife Resources Agency	N/A	N/A
Treasury Department	35,000	Y
Department of Agriculture	1,768,000	Y
Department of Children's Services	3,996,100	Y
Department of Commerce and Insurance	4,203,800	Y
Department of Correction	20,430,400	Y
Department of Economic and Community Development	270,000	Y
Department of Education	33,964,300	Y
Department of Environment and Conservation	884,700	Y
Department of Finance and Administration	4,779,900	Y
Department of Finance and Administration Division of TennCare	31,060,200	Y
Department of Financial Institutions	N/A	Y
Department of General Services	254,000	Y
Department of Health	3,502,000	Y
Department of Human Resources	N/A	
Department of Human Services	4,500,000	Y
Department of Intellectual and Developmental Disabilities	649,700	Y
Department of Labor and Workforce Development	2,462,500	Y
Department of Mental Health and Substance Abuse Services	5,271,000	Y
Department of Military	53,300	Y

Department of Revenue	6,611,800	Y
Department of Safety	6,761,100	Y
Department of Tourist Development	410,000	Y
Department of Transportation	N/A	
Department of Veterans Services	486,500	N
Tennessee Bureau of Investigation	N/A	N/A
Tennessee Higher Education Commission	300,000	Y

Reversion Targets for Fiscal Year 2018		
Entity	**Reversion Target**	**Reversion target met? Y/N**
Attorney General and Reporter	$700,000	Y
Board of Parole	100,000	Y
Claims and Compensation	N/A	
Commissions	600,000	Y
Human Rights Commission		
Public Utility Commission		
Advisory Commission on Intergovernmental Relations		
Commission on Children and Youth		
Commission on Aging and Disability		
Health Services and Development Agency		
Council on Developmental Disabilities		
Alcoholic Beverage Commission		
Arts Commission		
State Museum		
TN Housing Development Agency		
Comptroller of the Treasury	3,219,900	Y
Court System	N/A	Y
District Attorneys General Conference	2,250,000	Y
District Public Defenders Conference	1,650,000	Y
Emergency and Contingency Funds	N/A	N/A
Executive Department	90,000	Y
Fiscal Review Committee	N/A	N/A
Legislature	N/A	N/A
Miscellaneous Appropriations	15,180,000	Y
Office of Post-Conviction Defender	313,400	Y
Other Post-Employment Benefits Liability	N/A	N/A
Secretary of State	2,654,600	Y
State Building Commission	N/A	N/A
Strategic Health-Care Programs (F&A)	N/A	N/A
Tennessee Rehabilitative Initiative in Correction	N/A	N/A
Tennessee Wildlife Resources Agency	N/A	N/A
Treasury Department	31,500	Y

Department of Agriculture	900,000	Y
Department of Children's Services	2,500,000	Y
Department of Commerce and Insurance	1,150,000	Y
Department of Correction	10,000,000	Y
Department of Economic and Community Development	270,000	Y
Department of Education	30,200,000	Y
Department of Environment and Conservation	400,000	Y
Department of Finance and Administration	250,000	Y
Department of Finance and Administration Division of TennCare	67,409,200	Y
Department of Financial Institutions	N/A	Y
Department of General Services	250,000	Y
Department of Health	3,500,000	Y
Department of Human Resources	N/A	
Department of Human Services	4,500,000	Y
Department of Intellectual and Developmental Disabilities	250,000	Y
Department of Labor and Workforce Development	900,000	Y
Department of Mental Health and Substance Abuse Services	3,300,000	Y
Department of Military	90,000	Y
Department of Revenue	2,000,000	Y
Department of Safety	13,250,000	Y
Department of Tourist Development	400,000	Y
Department of Transportation	N/A	
Department of Veterans Services	100,000	N
Tennessee Bureau of Investigation	N/A	N/A
Tennessee Higher Education Commission	350,000	Y

Source: The Department of Finance and Administration's Director of Budget.

APPENDIX 5
List of Restricted Funds, Swept to Close Fiscal Year 2014

Fund Name	Amount Swept	Balance After Sweep
Alcoholic Beverage Commission – Alcohol Serve Fees	$ 411,192	$2,000,000
Commerce & Insurance – Insurance Fees	12,015,375	1,000,000
Correction – Community Correction	2,489,864	1,000,000
Correction – GPS Offender Tracking Fees	444,610	25,000
Correction – Probation & Parole	2,500,000	5,529,423
Cover Rx	10,700,000	5,661,160
Cover TN	16,000,000	3,030,163
CoverKids	23,343,700	19,558,690
Economic and Community Development – Job Skills Fund	2,275,360	2,193,508
Education – Major Maintenance for Special Schools	550,000	558,412
Education – Tennessee Early Intervention System	3,532,570	-
Environment & Conservation – Biofuels Project	79,123	-
Environment & Conservation – Oil & Gas Reclamation	816,002	650,000
Environment & Conservation – Solid Waste Assistance Fund	7,661,973	5,000,000
Health – Access Incentive Funds	7,989,036	1,000,000
Human Services – ACCENT System Project	7,786,400	-
Human Services – TCSES System Project	23,828,800	23,829,703
Human Services – Vocational Rehabilitation Operating Reserve	9,838,200	3,391,463
Labor – Administrative Fund	4,455,842	10,395,753
Labor – TOSHA	2,903,247	-
Miscellaneous – 2009 Voluntary Buyout – Tuition Costs	238,537	-
Revenue – CID Anti-Theft	1,531,883	500,000
Revenue – License Place Production	4,257,113	3,200,000
Revenue – Sales Tax Disaster Relief	497,112	-
Safety – Handgun Permit Fee Reserve	11,904,338	300,000
Safety – Homeland Security	2,539,140	300,000
Strategic Health-Care Programs – eHealth Information Technology	3,275,000	2,000,000
TACIR – Operational Reserve	4,536,026	1,000,000
TBI – Handgun Permit Fee Reserve	6,173,342	300,000
TennCare Reserve (Unobligated)	25,000,000	397,985,620
Tobacco Master Settlement – Reserve for Future Appropriations	6,700,000	-
Tobacco Master Settlement Agreement – Reserve for Revenue Estimate	5,300,000	-
TOTAL	**$211,573,784**	

Source: The Department of Finance and Administration's Director of Budget.

APPENDIX 6
Internal Service Fund Descriptions

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Strategic Technology Solutions—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management—Administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management—A division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing—A division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government for all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund—Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. This fund primarily includes employees of the state, University of Tennessee, and the State University and Community College System. Group life and accident insurance premiums, dental premiums, and long-term care premiums paid to private insurance companies are also recorded in this fund.

Postal Services—A division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Purchasing—A division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Warehousing and Distribution—A division of the Department of General Services, is responsible for the purchasing of office supplies and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

Records Management—A division of the Secretary of State, is responsible for the retention and disposal of official records for state government.

Human Resources—This fund's responsibilities include providing departments with applicants for employment, providing training to state employees, and administering the Sick Leave Bank.

Division of Accounts—A division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction)—Manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not for profit organizations.

Edison—Maintained by the Department of Finance and Administration's Enterprise Resource Planning division, is the state's integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

Source: State of Tennessee's *Comprehensive Annual Financial Report.*

APPENDIX 7
Executive Order 39
Agencies Consolidated Under STS for Workstation Support*

Agency	Positions Eliminated From Agency	Positions Created at OIR
Department of Agriculture	2	2
Department of Children's Services	15	15
Department of Commerce and Insurance	3	3
Department of Correction	8	6
Department of Economic and Community Development	2	0
Department of Education	5	2
Department of Environment and Conservation	10	9
Department of Finance and Administration	7	4
Department of Finance and Administration's Division of TennCare	4	3
Department of Financial Institutions	0	0
Department of General Services	3	2
Department of Health	25	21
Department of Human Resources	0	0
Department of Human Services	41	22
Department of Intellectual and Developmental Disabilities	10	8
Department of Labor and Workforce Development	9	5
Department of Mental Health and Substance Abuse Services	2	7
Department of Revenue	5	4
Department of Safety and Homeland Security	11	7
Department of Tourist Development	0	1
Department of Transportation	16	16
Department of Veterans Services	0	0
Total	**178**	**137**

*The Alcoholic Beverage Commission, Council on Developmental Disabilities, and Tennessee State Museum are also consolidated for workstation support but were not required to do so by Executive Order 39.
Source: Executive Order 39.

APPENDIX 8
Enterprise IT Transformation Agencies
as of July 1, 2019

Enterprise IT Transformation
Board of Parole
Department of Agriculture
Department of Children's Services
Department of Commerce and Insurance
Department of Correction
Department of Economic and Community Development
Department of Environment and Conservation
Department of Finance and Administration
Department of Financial Institutions
Department of General Services
Department of Health
Department of Human Resources
Department of Human Services
Department of Intellectual and Developmental Disabilities
Department of Labor and Workforce Development
Department of Mental Health and Substance Abuse Services
Department of Military
Department of Revenue
Department of Safety and Homeland Security
Department of Tourist Development
Department of Veterans Services
Edison (Unit within Strategic Technology Solutions)

Source: Executive Support to Chief Information Officer.

APPENDIX 9
Agencies' Comments on STS From Auditor Questionnaire

Our agency would have a better understanding of STS' billing procedures and what the errors are a result of if STS was able to provide documentation for its billing processes. has requested a process document from STS showing the billing processes and the different actions that must be taken to initiate requests. To date process documentation has not been received.

STS has been working diligently with our agency to improve its billing process. STS leadership keeps open communication with leadership and employees to ensure that any billing errors are reviewed and corrected.

It is our agency's opinion that STS has not reached a point of acceptable transparency with its customers. experienced issues getting an employee access to view the agency's billing reports.

… on the STS Manpower billing, we do not know what the tasks mean. For example, what is 'Customer Relations/Awareness?' How would a department know if they are really getting this service?

...the billing itself is cumbersome.

This transition was poorly staffed and planned out.

It is too difficult to understand what we are getting billed and what services STS has provided.

If I can access the billing, I can read and understand it. But I can seldom access it. In addition, we are billed for meetings, etc. which do not benefit us in any way. We are paying for STS to exist rather than just the staff who support us...

I am able to read and understand the bills

…the information available to the agency is two months behind the current date. For example, the billing report for the month of April was posted in the BI Center on 6/5/2019. This can cause issues if billing errors are found, especially at the end of the state fiscal year since STS cannot reimburse agencies across fiscal years.

There has been a lot of improvement in transparency of the numerous billings that come from STS.

The bills need more descriptive information in one consolidated location.

I do feel that more details are needed for manpower billing as there are a lot of names and hours that I do not know specifically what they are working on.

It is too complicated and corrections are slow to be changed.

…a manual of charges and what they are would be very helpful since often the charges are for IT acronyms that the lay person isn't able to easily decipher.

Service billing needs work as far as providing details behind what work is being done and not just a list of names with broad categories and hours.

…there have been several errors that require a continued effort to get resolved.

STS has worked vigorously over the past few years to correct and streamline the agency's billing processes.

On the TIBS billing spreadsheets, descriptions are not always telling, information is old and inaccurate, not all end users know STS terminology for projects to interpret data from the report.

We have tried to do a reconciliation, but we do not receive anything to reconcile the billing to. We are only able to somewhat determine we are still getting billed for items that are supposed to fall under the "overhead" rate used for FY19.

We did have issues with how the consolidation was implemented and I still have concerns that my agency will be harmed by how STS and the Budget office are handling the funding.

we found several errors, including billing for a person that was moved to STS that was previously our employee in which we have been paying his phone bill for 2+ years.

… unable to reconcile since no detailed billing invoice is received.

… to create billing transparency, recommends STS document its billing processes and keep agencies informed as the processes are altered. Lastly, recommends that STS create a glossary detailing the terminology used in the agency's billing reports.

We have not received a refund for the majority of the incorrect billing.

Include a glossary for projects so end users can understand project billed.

Source: Responses to auditor questionnaire.

APPENDIX 10
Missing Cost Models and Rates for STS Billings
Effective Dates Unknown

Attachmate A software product that provides terminal emulated access to the state mainframe.	
	Rate
Software	$4.65 per user per month

Host on Demand A software product that is used to manage IBM Host On-Demand (HOD) access.	
	Rate
Software	$6.65 per user per month

Ops Labor Rate Consulting and support services provided to agencies on request.	
	Rate
STS Project Manager	$100.00 per hour
Programmer/Analyst 2 & 3	66.00 per hour
Programmer/Analyst 4	82.00 per hour
Technical Consultant	82.00 per hour
Database Administrator	95.00 per hour
Systems Programmer	89.00 per hour
Telecom Consultant	82.00 per hour
Quality Assurance Testing	82.00 per hour
Geographic Information System Analyst	95.00 per hour
Geographic Information System Technician	55.00 per hour
IT Service Management Solutions Consultant	95.00 per hour
Unified Enterprise Content Management Consultant	95.00 per hour

SQL Server Reporting Services Rate Host and manage user access to SQL Server Reporting Service objects in the STS shared environment.	
	Rate
Reporting Services	$500.00 per server per month

Source: Executive Director of Enterprise Governance and Administration.

APPENDIX 11
Agencies Billed Using Missing STS Cost Models
During Fiscal Years 2018 and 2019

Attachmate A software product that provides terminal emulated access to the state mainframe.		
	FY 2018	**FY 2019**
Advisory Commission on Intergovernmental Relations	X	X
Alcoholic Beverage Commission	X	
Attorney General's Office	X	X
Board of Parole	X	X
Commission on Aging and Disability	X	X
Commission on Children and Youth	X	
Comptroller of the Treasury	X	X
Department of Agriculture	X	X
Department of Children's Services	X	X
Department of Commerce and Insurance	X	X
Department of Correction	X	X
Department of Economic and Community Development	X	X
Department of Education	X	X
Department of Environment and Conservation	X	X
Department of Finance and Administration	X	X
Department of Finance and Administration Division of TennCare	X	X
Department of Financial Institutions	X	X
Department of General Services	X	X
Department of Health	X	X
Department of Human Resources	X	X
Department of Human Services	X	X
Department of Intellectual and Developmental Disabilities	X	X
Department of Labor and Workforce Development	X	X
Department of Mental Health and Substance Abuse	X	X
Department of Military		X
Department of Revenue	X	X
Department of Safety	X	X
Department of Transportation	X	X
Governor's Office	X	
Health Services and Development Agency	X	
Higher Education Commission	X	
Secretary of State	X	X
Tennessee Bureau of Investigations		X
Tennessee Public Utility Commission	X	X
Tennessee Rehabilitative Initiative in Correction	X	X

Attachmate A software product that provides terminal emulated access to the state mainframe.		
Tennessee Student Assistance Corporation	X	X
Tennessee Wildlife Resource Agency	X	X
Tourist Development	X	
Treasury Department	X	X

Source: Executive Director of Enterprise Governance and Administration.

Host On Demand A software product that is used to manage IBM Host On-Demand (HOD) access.		
FY 2018	**FY 2018**	**FY 2019**
Administrative Office of the Courts		X
Alcoholic Beverage Commission	X	
Department of Children's Services	X	X
Department of Correction	X	X
Department of Education	X	
Department of Environment and Conservation	X	
Department of Finance and Administration	X	X
Department of Finance and Administration Division of TennCare	X	
Department of Financial Institutions	X	
Department of Health	X	
Department of Human Resources		X
Department of Human Services	X	X
Department of Intellectual and Developmental Disabilities	X	
Department of Labor and Workforce Development	X	
Department of Mental Health and Substance Abuse	X	
Department of Military	X	
Department of Revenue	X	X
Department of Tourist Development	X	
Department of Transportation	X	X
Secretary of State	X	
Tennessee Arts Commission	X	
Tennessee Housing Development Agency		X
Treasury Department	X	X

Source: Executive Director of Enterprise Governance and Administration.

Ops Labor Consulting and support services provided to agencies on request.		
	FY 2018	**FY 2019**
Administrative Office of the Courts	X	X
Alcoholic Beverage Commission	X	X
Board of Parole	X	X
Commission on Aging and Disabilities	X	
Commission on Children and Youth		X
Comptroller of the Treasury	X	X
Department of Agriculture	X	X
Department of Children's Services	X	X
Department of Commerce and Insurance	X	X
Department of Correction	X	X
Department of Economic and Community Development		X
Department of Education	X	X
Department of Environment and Conservation		X
Department of Finance and Administration	X	X
Department of Finance and Administration Division of TennCare	X	X
Department of Financial Institutions	X	X
Department of General Services	X	X
Department of Health	X	X
Department of Human Resources	X	X
Department of Human Services	X	X
Department of Intellectual and Developmental Disabilities	X	X
Department of Labor and Workforce Development	X	X
Department of Mental Health and Substance Abuse Services	X	X
Department of Military	X	X
Department of Revenue	X	X
Department of Safety and Homeland Security	X	X
Department of Tourist Development	X	
Department of Transportation	X	X
Governor's Office	X	X
Higher Education Commission	X	X
Secretary of State	X	X
Tennessee Bureau of Investigation	X	X
Tennessee Rehabilitative Initiative in Corrections	X	X
Tennessee State Museum	X	X
Tennessee Student Assistance Corporation	X	X
Tennessee Wildlife Resources Agency	X	X
Treasury Department	X	

Source: Executive Director of Enterprise Governance and Administration.

SQL Server Reporting Services Rate Host and manage user access to SQL Server Reporting Service objects in the STS shared environment.		
	FY 2018	**FY 2019**
Administrative Office of the Courts	X	X
Alcoholic Beverage Commission	X	X
Department of Agriculture	X	X
Department of Children's Services	X	
Department of Commerce and Insurance	X	X
Department of Correction	X	X
Department of Education	X	
Department of Environment and Conservation	X	
Department of Finance and Administration	X	X
Department of Finance and Administration Division of TennCare	X	X
Department of General Services	X	X
Department of Health	X	X
Department of Human Resources	X	X
Department of Human Services	X	X
Department of Intellectual and Developmental Disabilities	X	X
Department of Labor and Workforce Development	X	X
Department of Military	X	X
Department of Safety	X	
Department of Transportation	X	X
Financial Institutions	X	
Higher Education Commission	X	
Secretary of State	X	
State Building Commission		X
Tennessee State Museum	X	X
Tennessee Wildlife Resource Agency	X	X
Treasury Department	X	X

Source: Executive Director of Enterprise Governance and Administration.

APPENDIX 12
Amounts Credited to Agencies Due to STS Double-Billing Error
From July to November 2018

Department/Agency	Workstation Support Credit Amount	Enterprise Services Credit Amount
Department of Agriculture	$645	$253
Board of Parole	-	812
Department of Children's Services	4,057	9,658
Department of Commerce and Insurance	784	1,491
Department of Correction	2,466	2,366
Department of Economic and Community Development	369	486
Department of Education	0	164
Department of Financial Institutions	92	526
Department of Human Services	11,525	13,643
Department of Intellectual and Developmental Disabilities	1752	1,249
Department of Labor and Workforce Development	2674	3,212
Department of Mental Health and Substance Abuse Services	1,060	1,980
Department of Military	92	22
Department of Revenue	6,477	7,009
Department of Safety and Homeland Security	0	4,765
Department of Tourist Development	0	313
Total	**$31,993**	**$47,221**

Source: Executive Director of Business Solutions Delivery.