AUDIT REPORT

Tennessee Council of Juvenile and Family Court Judges

November 2005

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

November 22, 2005

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable William M. Barker
Chief Justice of the Supreme Court
Supreme Court Building
Nashville, Tennessee 37243
and
The Honorable James F. Watson, President
Tennessee Council of Juvenile and Family Court Judges
McMinn County
P.O. Box 506
Athens, Tennessee 37303

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Council of Juvenile and Family Court Judges for the period July 1, 2001, through February 28, 2005.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
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March 11, 2005

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

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Council of Juvenile and Family Court Judges for the period July 1, 2001, through February 28, 2005.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Tennessee Council of Juvenile and Family Court Judges' compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Council of Juvenile and Family Court Judges is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The council's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the council's internal control and/or instances of noncompliance to the Tennessee Council of Juvenile and Family Court Judges' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit

Tennessee Council of Juvenile and Family Court Judges

November 2005

AUDIT SCOPE

We have audited the Tennessee Council of Juvenile and Family Court Judges for the period July 1, 2001, through February 28, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of revenue, expenditures, the Executive Committee bank account, and payroll and personnel. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

AUDIT FINDINGS

Inadequate Controls Over Executive Committee Bank Account

The audit revealed that controls over the Executive Committee bank account were inadequate. Problems noted included: (1) maintenance of the account by state employees in state facilities utilizing state resources; (2) deposits without supporting receipts; (3) receipts written after deposits were made; and (4) lack of support for expenditures (page 6).

Program Income Not Reported as Required by Grant Guidelines

Conference registration fees were not reported as program income to the Tennessee Commission on Children and Youth. In addition, federal drawdowns occurred before all of the program income was spent (page 8).

Financial and Compliance Audit
Tennessee Council of Juvenile and Family Court Judges

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Financial and Compliance Audit
Tennessee Council of Juvenile and Family Court Judges

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Council of Juvenile and Family Court Judges. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Council of Juvenile and Family Court Judges was created by Section 37-1-501, *Tennessee Code Annotated*, as the official organization of the judges having juvenile and family court jurisdiction in the state. This statute also authorized the council to appoint the necessary personnel to perform its administrative duties. The council appointed an executive director and a small staff, who are state employees. (The judges are county employees.) The council provides technical assistance to the state's 98 juvenile courts. In addition, the council collects statistical data on juvenile referrals and dispositions from each of the courts and produces an annual statistical report as well as ad hoc reports as requested. Another major activity of the council is to provide educational opportunities to judges, referees, and court staff. During an average year, the council conducts two major conferences and two or so smaller seminars that are attended by approximately 700 professional juvenile justice participants. All judicial education programs provide continuing legal education credit. The council serves as a liaison between the juvenile courts and the legislative and executive branches of government. The governing body of the council is the Executive Committee, composed of 11 judges elected annually by the council.

On February 28, 2005, the council appointed the Executive Director of the Administrative Office of the Courts as the council's executive director, effective April 1, 2005. This resulted in the transfer of all council administrative duties to the Administrative Office of the Courts.

An organization chart of the Tennessee Council of Juvenile and Family Court Judges is on the following page.

AUDIT SCOPE

We have audited the Tennessee Council of Juvenile and Family Court Judges for the period July 1, 2001, through February 28, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of revenue, expenditures, the Executive Committee bank account, and payroll and personnel. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

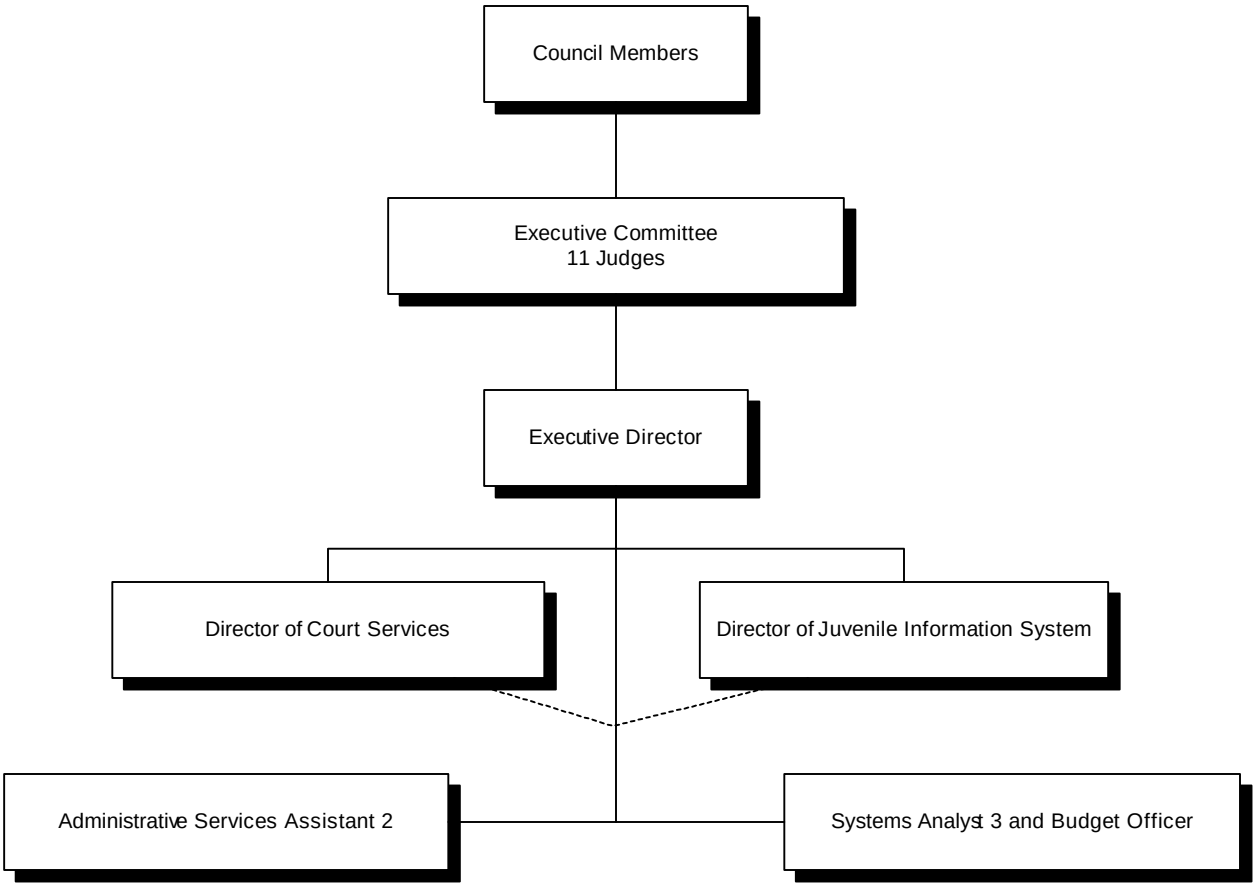
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

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

- policies and procedures relating to revenues were adequate;
- cash collected during the audit period was deposited timely;
- physical controls over cash were adequate;
- revenue or fees were charged and recorded at the correct amount;
- revenue transactions were complete; and

Tennessee Council of Juvenile and Family Court Judges
Organization Chart
as of February 28, 2005



- records were reconciled with Department of Finance and Administration reports.

We interviewed key council personnel to gain an understanding of procedures and controls for collecting cash and reconciling reports. In addition, we tested a nonstatistical sample of revenue transactions from the period July 1, 2001, through December 31, 2004, for adequate support, timely deposits, agreement of amounts receipted and deposited, correct recording, and proper approval. Also, we tested all receipts written from July 1, 2001, through February 28, 2005, for completeness.

Based on interviews and review of controls, we determined that policies and procedures related to revenue in the state account were adequate. Also, based on testwork performed, we determined that cash collected during the audit period was deposited timely; physical controls over cash were adequate; revenue and fees were charged and recorded at the correct amount; revenue transactions were complete; and records were reconciled with Department of Finance and Administration reports.

EXPENDITURES

Our objectives in reviewing expenditure controls and procedures were to determine whether

- policies and procedures regarding expenditures were adequate;
- recorded expenditures for goods or services were properly authorized, adequately supported, and correctly recorded in the state's accounting records;
- goods and services were received and procured in accordance with applicable regulations or requirements;
- payments were made in a timely manner;
- purchases were in compliance with grant agreements;
- payments for travel were in accordance with the *State of Tennessee Comprehensive Travel Regulations*; and
- records were reconciled with Department of Finance and Administration reports.

We interviewed key council personnel to gain an understanding of the council's procedures and controls over expenditures. We also reviewed supporting documentation for these controls and procedures. In addition, testwork was performed on a nonstatistical sample of expenditure transactions during the period from July 1, 2001, through December 31, 2004.

Based on interviews and review of controls, we determined that policies and procedures regarding expenditures were adequate. In addition, based on our review of supporting documentation and testwork, we determined that expenditures were properly authorized, adequately supported, and recorded correctly; goods and services were received and procured in accordance with applicable regulations or requirements; payments were made timely; purchases were in compliance with grant agreements, with one minor exception; travel payments were made in accordance with the *State of Tennessee Comprehensive Travel Regulations*; and records were reconciled with Department of Finance and Administration reports.

EXECUTIVE COMMITTEE BANK ACCOUNT

The Executive Committee of the Tennessee Council of Juvenile and Family Court Judges operates a bank account. Revenues for membership dues and conference registration fees are deposited into this account, and some conference-related expenses are paid out of this account. The council's executive director had been performing the majority of the accounting transactions, such as collecting revenue, preparing and maintaining cash receipts, preparing and making deposits, and maintaining the checkbook. The maintenance of the account was supposed to occur outside of state facilities, and state employees were not to be utilized. However, based on interviews with employees, during the audit period from July 1, 2001, through February 28, 2005, other council personnel performed some of those functions while on state time. As a result, it was determined that auditors should perform testwork on this account.

Our objectives in reviewing controls and procedures over the Executive Committee bank account were to determine whether

- controls over revenues and expenditures were adequate;
- only the executive director was performing account maintenance duties;
- revenue transactions were complete;
- supporting receipts existed;
- revenue was reported and used in accordance with grant requirements; and
- payments were adequately supported and properly approved.

We interviewed key council personnel to gain an understanding of procedures and controls for collecting cash and making payments. Based on interviews and testwork performed, we determined that controls related to revenues and expenses were inadequate as discussed in finding 1.

While reviewing the Executive Committee bank account, we discovered that the council received federal grant funds through the Tennessee Commission on Children and Youth to cover

certain expenses for their summer conferences. The registration fees for these conferences are considered program income since federal funds are received to cover some of the conference costs. However, the conference registration fees were not reported as program income, and the income was not fully expended before federal funds were drawn down as discussed in finding 2.

1. Inadequate controls over Executive Committee bank account

Finding

One of the major functions of the Tennessee Council of Juvenile and Family Court Judges is to conduct conferences for juvenile judges and referees, who are appointed by juvenile judges to hear cases and who have the same powers as a trial judge when doing so. A registration fee is charged to the participants of these conferences. The revenue collected is deposited into and some of the conference related expenses are paid out of a bank account operated by the Executive Committee of the council. The account is under the name of the Tennessee Council of Juvenile Court Judges. Our testwork revealed that controls over the Executive Committee bank account were inadequate.

A finding regarding the Executive Committee bank account was included in the audit report for the years ended June 30, 1993, and June 30, 1992. The finding recommendation stated that the council should "ensure that the maintenance of the account is not performed by state employees in state facilities using state resources." Management responded to the finding by stating that the account "will be maintained outside of state facilities and without state resources." From July 1, 1993, through June 30, 2001, the council's executive director, a state employee, performed accounting transactions—such as preparing and maintaining cash receipts, collecting revenue from a post office box, and preparing and making deposits—outside of state facilities and without utilizing state time. For the audit period of July 1, 2001, through February 28, 2005, we tested all receipts written for the Executive Committee bank account to determine who processed the receipts and for agreement with amounts deposited. Those tests revealed that 221 of the 859 receipts (26%) were written by council staff (who are state employees) other than the executive director. According to staff, these receipts were written during state time.

We tested all deposits made into the Executive Committee bank account during the audit period for agreement with amounts receipted. A total of $127,092 was deposited into the account during the audit period; $33,302 (27%) did not have supporting receipts to document the source, purpose, and date of the receipt of funds. The last receipts written for the Executive Committee bank account were prepared in August 2004. No receipts have been completed since that time. It was also noted that 327 of the 859 receipts (38%) were written after the related deposit was made. If receipts are not immediately prepared for all revenues, funds could be diverted without detection.

In response to the errors noted above regarding inadequate supporting receipts, we performed additional testwork that included indicated revenue tests and analytical procedures on membership dues and conference registration fees. The results showed no unusual fluctuations or anomalies.

Testwork was performed on all expenses paid from the Executive Committee bank account during the audit period that were greater than $1,000. This testwork revealed that 5 of the 19 expenses greater than $1,000 did not have adequate support. In each case, there was no invoice or any other documentation from the vendor billing the council for amounts paid. For one payment, in the amount of $1,500, an invoice had not been received from the vendor. However, the amount paid agreed with the amount negotiated in the contract with the vendor. Four of the checks, totaling $33,085, were written to the nonprofit organization with which the council hosts the summer conferences. The canceled checks were reviewed, and it was determined that the checks were deposited into the nonprofit organization's bank account. According to the executive director, expenses to this organization were always agreed to verbally, and the amount paid was the agreed-upon rate times the number of conference participants. Without adequate documentation, it is difficult to ascertain whether transactions resulting in expenses actually occurred, that the amounts paid and the payee were proper, and that amounts billed were accurately computed. In addition, sound business practices require all contracts to be in writing.

Recommendation

The maintenance of the Executive Committee bank account should not be performed by state employees in state facilities using state resources. In addition, internal controls over the Executive Committee bank account should be implemented to include preparing receipts when funds are received and obtaining and maintaining support for all expenses.

Management's Comment

On April 1, 2005, the Administrative Office of the Courts (AOC) Executive Director was named as Executive Director for the Council of Juvenile and Family Court Judges ("Council"). The impact of that appointment was to transfer all administrative responsibilities to the AOC. The proposed findings cover a time period (July 1, 2001, through February 28, 2005) for which AOC staff had no oversight or responsibility for the operation of the Council. Thus, the ability to respond to the proffered findings is significantly limited. Council business operations are being absorbed into AOC operations and it is hoped that such transition will eliminate any deficiencies that may have existed in the past.

We concur in part. On May 13, 2005, the Council's Executive Committee voted to hire a certified public accountant ("CPA") to maintain the books of what is referred to in this finding as the "Executive Committee bank account." This decision was made in response to the Executive Committee being informed about potential concerns in the audit that was then in process. Since AOC staff had no direct involvement with the actions upon which the proposed finding is based and lacks sufficient knowledge and information to respond in detail, it is our position that the Executive Committee's action in May 2005 to seek to hire a CPA to manage the account appears to be a sufficient response to the outlined concerns.

2. Program income not reported as required by grant guidelines

Finding

The council received federal grant funds through the Tennessee Commission on Children and Youth (TCCY) to cover certain expenses for their 2001, 2002, and 2004 summer conferences. According to the grant agreement between the council and the TCCY, "any income generated by . . . this Grant and collected by the Grantee shall be reported to the Grantor State Agency [TCCY] and used to offset authorized grant expenditures." In addition, the *Code of Federal Regulations*, Title 28, Judicial Administration, states in Chapter 66, Section 21(f)(2), that "grantees and subgrantees shall disburse program income before requesting additional cash payments" from the grantor.

The council collected conference registration fees of $14,625, $14,815, and $14,000 for the 2001, 2002, and 2004 summer conferences, respectively. These conference registration fees are considered program income since federal funds are received to cover some of the conference costs. However, the conference registration fees were not reported as program income to the TCCY. In addition, federal drawdowns occurred before all of the program income was spent. For 2001, $3,281.87 was remaining in program income, yet $1,540.04 of federal funds was drawn down to pay for instructor fees. For 2002, $4,058.47 was remaining in program income, but $807.78 was drawn down in federal funds for instructor fees. Finally, for 2004, $4,316.25 was remaining in program income, but $267.48 was drawn down in federal funds for instructor travel expenses. Not reporting the program income was a violation of the grant agreement with the TCCY, and the drawdowns of grant funds before program income was fully expended violated federal requirements.

Recommendation

In accordance with grant terms and federal requirements, program income should be reported, and it should be expended before federal funds are drawn down.

Management's Comment

On April 1, 2005, the Administrative Office of the Courts (AOC) Executive Director was named as Executive Director for the Council of Juvenile and Family Court Judges ("Council"). The impact of that appointment was to transfer all administrative responsibilities to the AOC. The proposed findings cover a time period (July 1, 2001, through February 28, 2005) for which AOC staff had no oversight or responsibility for the operation of the Council. Thus, the ability to respond to the proffered findings is significantly limited. Council business operations are being absorbed into AOC operations and it is hoped that such transition will eliminate any deficiencies that may have existed in the past.

We do not concur. It is not readily apparent within the limited information and knowledge of AOC that the registration fees collected were in fact program income under the terms of the TCCY grant. While we cannot concur in this finding, we will work with TCCY to clearly define program income and report as may be required in future grants.

Auditor's Comment

The Office of Justice Programs (OJP) in the United States Department of Justice has developed the OJP *Financial Guide* which applies to all grantor agency awards. According to Part III, Chapter 4, of the *Financial Guide*, "All income generated as a direct result of an agency-funded project shall be deemed program income (e.g., if the purpose of the grant is to conduct conferences, any training fees that are generated would be considered program income)." The guide further states that "unless specified by the awarding agency, program income should be used as earned and expended as soon as possible." The federal government defines program income, and this definition cannot be changed by either the recipient or the subrecipient in order to avoid reporting revenue.

PAYROLL AND PERSONNEL

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

- controls over payroll and personnel were adequate;
- employees were qualified for their positions;
- terminated employees' final pay was calculated properly, payment agreed with time sheets and leave slips, and the employees did not appear on the next succeeding payroll;
- employment was authorized;
- payroll was computed accurately;
- payroll disbursements were made only for work authorized and performed; and
- payroll was properly approved.

We interviewed key council employees to gain an understanding of procedures and controls over payroll and personnel. We reviewed all personnel files of employees at December 31, 2004, to determine if they were qualified for the positions they held. All employees terminated during the period July 1, 2001, through February 28, 2005, were tested to determine if their final pay was calculated accurately and agreed with time sheets and leave slips and that

the employees did not appear on the next succeeding payroll. A nonstatistical sample of payroll transactions from July 1, 2001, through December 31, 2004, was tested for proper approval and accuracy of computations including comparisons with time sheets and leave slips.

As a result of our testwork, we determined that controls over payroll and personnel were adequate. All employees were qualified for the job held. Also, terminated employees' final pay was computed correctly and agreed with time sheets and leave slips, with minor exceptions. In addition, terminated employees did not appear on the next succeeding payroll. Payroll disbursements were properly approved, computed accurately, and agreed with time sheets and leave slips, with minor exceptions.

OBSERVATIONS AND COMMENTS

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Tennessee Commission on Children and Youth includes the Tennessee Council of Juvenile and Family Court Judges in its implementation plan. The Tennessee Commission on Children

and Youth filed its compliance reports and implementation plans on June 26, 2002; June 27, 2003; and June 30, 2004.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.