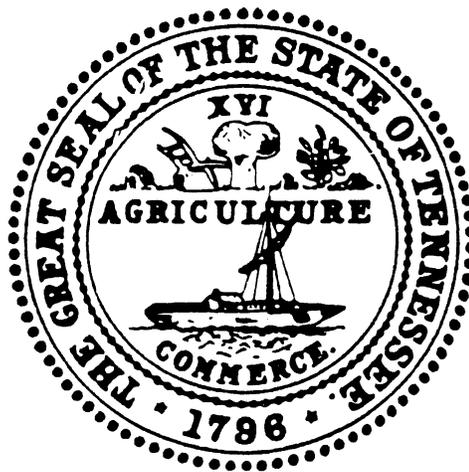


# AUDIT REPORT

Tennessee Commission on Children and Youth

September 2005



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Charles K. Bridges, CPA***  
Assistant Director

***Teresa L. Hensley, CPA***  
Audit Manager

***Sonja Yarbrough, CFE***  
In-Charge Auditor

***Jennifer Whitsel, CFE***  
Staff Auditor

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

September 29, 2005

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

Members of the Tennessee Commission on  
Children and Youth

and

Ms. Linda O'Neal, Executive Director  
Tennessee Commission on Children and Youth  
Andrew Johnson Tower, Ninth Floor  
710 James Robertson Parkway  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Commission on Children and Youth for the period July 1, 2001, through May 31, 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/th  
05/068



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

June 3, 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 Commission on Children and Youth for the period July 1, 2001, through May 31, 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 Commission on Children and Youth's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Commission on Children and Youth 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 commission's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the commission's internal control and/or instances of noncompliance to the Tennessee Commission on Children and Youth's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/th

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Commission on Children and Youth**  
September 2005

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## AUDIT SCOPE

We have audited the Tennessee Commission on Children and Youth for the period July 1, 2001, through May 31, 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 equipment, revenue, expenditures, juvenile justice reimbursement, subrecipient monitoring, the Children's Program Outcome Review Team, and the Financial Integrity Act. 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

### **Controls Over Monitoring of Grant Contracts Are Not Adequate**

The controls over monitoring of the grant contracts awarded by the commission to local governments and other agencies are not adequate. Several subrecipients had not been monitored as required. In addition, the commission did not submit a monitoring plan for 2005 as required by the Department of Finance and Administration's Policy 22, *Subrecipient Contract Monitoring* (page 7).

### **The Commission Does Not Verify the Educational Background of External CPORT Reviewers**

The Children's Program Outcome Review Team (CPORT) collects, analyzes, and reports on data that will improve the effectiveness of services provided to children in state custody. However, the commission does not verify that the external CPORT reviewers meet the educational requirements as specified in the delegated purchase authority (page 11).

# Financial and Compliance Audit

## Tennessee Commission on Children and Youth

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# **Financial and Compliance Audit Tennessee Commission on Children and Youth**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Tennessee Commission on Children and Youth. 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 Commission on Children and Youth is an independent state agency created by the Tennessee General Assembly. Its primary mission is advocacy for improvements in the quality of life for the state’s children and families. To fulfill this mission, staff of the Tennessee Commission on Children and Youth gather, analyze, and report information on children and families for the planning and coordination of policies, programs, and services. The commission evaluates selected state programs and services for children.

The commission’s policymaking body is a 21-member board appointed by the Governor and consists of people active in addressing the problems and needs of children and youth. At least one member is selected from each of the state’s nine development districts, and the commissioners, or their designees, of state departments serving children serve *ex officio*. Youth advisory members also serve on the commission.

### **Advocacy**

The commission provides leadership for advocacy activities on behalf of children and families. The commission is an integral part of state policymaking on child and family issues and participates on national, state, regional, and local committees, task forces, and boards for information gathering, sharing, and networking.

## **Regional Councils**

The commission staffs and coordinates nine regional councils that provide organizational structure for statewide networking on behalf of children and families. The councils address the needs of children and families at the regional level and offer local-level feedback to the commission.

## **Information Dissemination**

The commission gathers, analyzes, and reports information on children and families in various publications, such as *KIDS COUNT: The State of the Child in Tennessee*, an annual county-by-county picture of the condition of children; *The Advocate*, a periodic newsletter sent to legislators, policymakers, children's advocates, service providers, and regional council members; and *Tennessee Compilation of Selected Laws on Children, Youth, and Families*, distributed to juvenile courts, state government staff, and other children's services professionals.

## **Juvenile Justice**

The commission is the state advisory group responsible for implementing provisions of the Juvenile Justice and Delinquency Prevention (JJDP) Act. The JJDP funds are awarded as Federal Formula or Title V grants. The Federal Formula grants are awarded to local governments or other organizations for delinquency prevention and to ensure that youth who commit offenses receive appropriate placements and services. The Title V grants are awarded to local governments to promote collaboration within communities for developing delinquency prevention strategies.

The commission also administers the Juvenile Accountability Block Grant (JABG) and the Enforcing Underage Drinking Laws (EUDL) program. The JABG funds are used to promote greater accountability in Tennessee's juvenile justice system and for juveniles who commit criminal offenses. The EUDL program is designed to reduce the availability and consumption of alcoholic beverages by minors.

The commission awards Court Appointed Special Advocate (CASA) grants to local CASA programs to support and promote court-appointed volunteer advocacy for abused and neglected children so that they can thrive in safe, permanent homes. The commission also administers the state supplements and reimbursement account for juvenile court services improvement as authorized by Section 37-1-162, *Tennessee Code Annotated*. The state supplements for improving juvenile courts require each court to have at least a part-time youth services officer in order to receive the funding. The reimbursement account assists counties in paying for alternatives to placing youth in adult jails.

## **Evaluation of Services for Children**

The commission conducts targeted evaluations and is responsible for the Children's Program Outcome Review Team (CPORT) evaluation. CPORT utilizes a quality service review methodology to provide an independent determination of the status of children in state custody and their families and how well the service system is performing to meet their needs.

## **Ombudsman Program**

The Ombudsman Program has a staff that serves as neutral reviewers to respond to questions, concerns, or complaints regarding children in state custody. Ombudsman staff have been trained and certified as mediators to work toward resolution of issues in the best interests of the child and family and community safety.

The Tennessee Commission on Children and Youth is part of the general fund of the State of Tennessee (allotment code 316.01). An organization chart of the commission is on the following page.

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### **AUDIT SCOPE**

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We have audited the Tennessee Commission on Children and Youth for the period July 1, 2001, through May 31, 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 equipment, revenue, expenditures, juvenile justice reimbursement, subrecipient monitoring, the Children's Program Outcome Review Team, and the Financial Integrity Act. 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.

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### **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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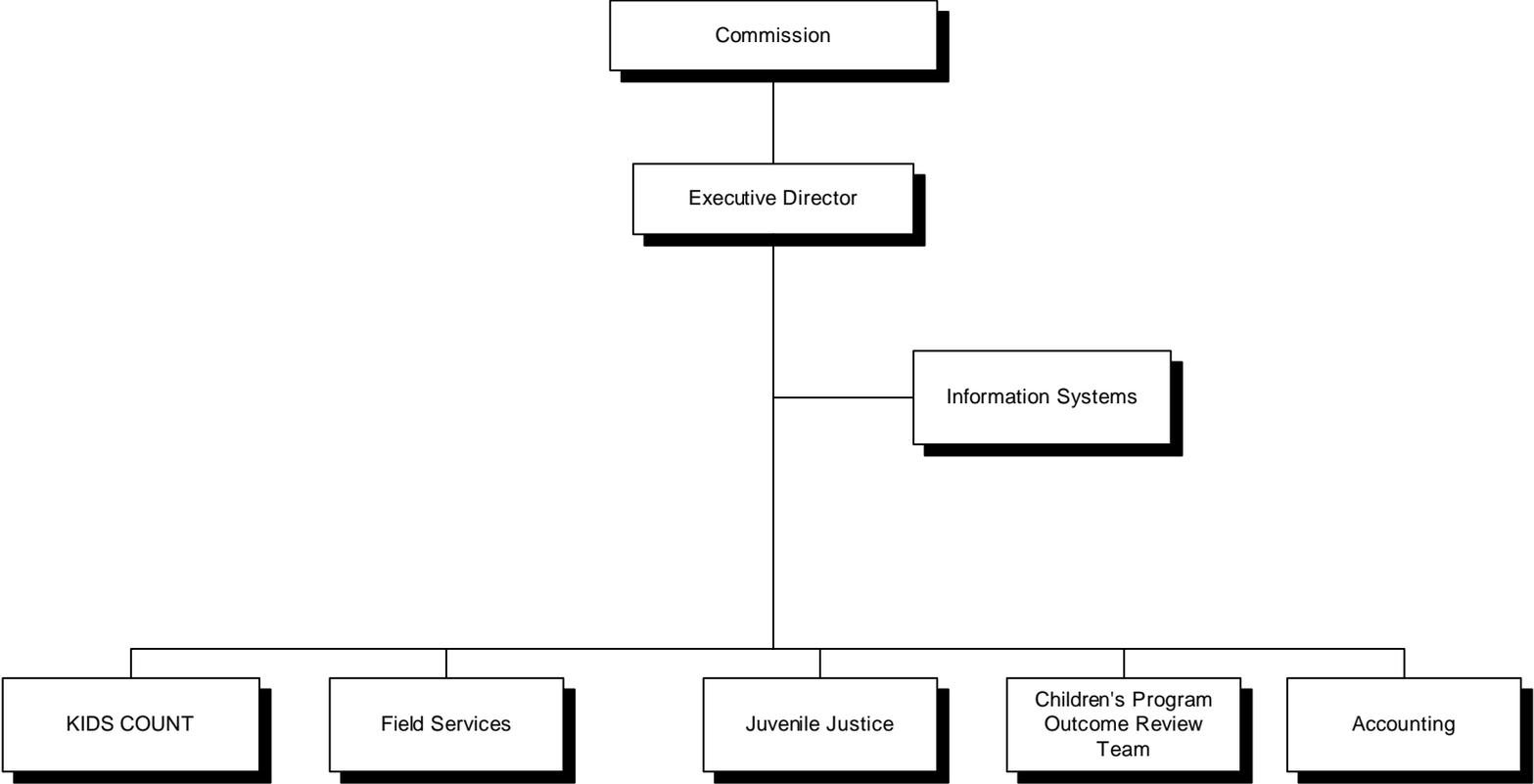
### **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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#### **EQUIPMENT**

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

# Tennessee Commission on Children and Youth Organization Chart



- policies and procedures related to equipment were adequate;
- the information on the commission's equipment listed in the Property of the State of Tennessee (POST) system is accurate and complete;
- property and equipment are adequately safeguarded; and
- equipment purchased during the audit period was properly recorded in POST.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over equipment. We reviewed supporting documentation and tested a nonstatistical sample of equipment listed on POST as of March 9, 2005. We also tested all equipment purchased from the period July 1, 2001, through January 31, 2005, from the State of Tennessee Accounting and Reporting System. Equipment items were physically located, and description, tag number, serial number, and location were traced to POST. For the items tested that were purchased during the audit period, the cost recorded in POST was traced to supporting documentation.

Based on interviews, review of supporting documentation, and testwork, we determined that policies and procedures related to equipment were adequate, and property and equipment were adequately safeguarded. Also, we determined that the information on the commission's equipment listed in POST was accurate and complete, and equipment purchased during the audit period was properly recorded in POST.

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

We interviewed key commission 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 for the period July 1, 2001, through February 28, 2005, for adequate support, timely deposits, agreement of amounts receipted and deposited, and correct recording.

Based on interviews and review of controls, we determined that policies and procedures related to revenue were adequate with minor exceptions. 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; and records were reconciled with Department of Finance and Administration reports.

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## **EXPENDITURES**

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

- policies and procedures regarding expenditures were adequate;
- recorded expenditures for goods and 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 timely manner;
- all payments for travel were paid in accordance with the State of Tennessee Comprehensive Travel Regulations; and
- records were reconciled with Department of Finance and Administration reports.

We interviewed key commission personnel to gain an understanding of the commission'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 for the period July 1, 2001, through January 31, 2005.

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; 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.

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## **JUVENILE JUSTICE REIMBURSEMENT**

As part of administering the Juvenile Justice and Delinquency Prevention Act, the Tennessee Commission on Children and Youth provides assistance to counties for removing juveniles from adult jails. These funds can be used to provide services to children who meet the criteria of Section 37-1-114(c), *Tennessee Code Annotated*, which describes the appropriate placement of juveniles in secure facilities. Each county accepting reimbursement funds must develop and submit local rules and procedures for each service provided. The objectives of our review of the commission's controls and procedures over juvenile justice reimbursement were to

determine whether policies and procedures were adequate and whether reimbursements were made in accordance with established policies and procedures.

We interviewed key commission personnel to gain an understanding of the commission's procedures and controls regarding juvenile justice reimbursement. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a nonstatistical sample of reimbursement claims filed for the period July 1, 2001, through February 28, 2005.

Based on our review of the commission's controls and procedures, we determined that the policies and procedures were adequate. Based on our review of supporting documentation and testwork, we determined that payments for juvenile justice reimbursement were made in accordance with established policies and procedures with minor exceptions.

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## **SUBRECIPIENT MONITORING**

Our objectives in reviewing subrecipient monitoring were to determine whether the commission's subrecipients had been adequately monitored and whether the commission had filed a monitoring plan as required by the Department of Finance and Administration's Policy 22, *Subrecipient Contract Monitoring*. We interviewed key commission personnel to gain an understanding of the commission's procedures and controls regarding subrecipient monitoring. We also obtained and reviewed monitoring reports for the commission's subrecipients. We determined that not all subrecipients had been monitored and that the commission did not file the required monitoring plan for 2005. See finding 1.

### **1. Controls over monitoring of grant contracts are not adequate**

#### **Finding**

The controls over monitoring of the grant contracts awarded by the commission to local governments and other agencies are not adequate. Testwork on 25 grant contracts revealed the following deficiencies.

The Department of Finance and Administration's Office of Program Accountability Review (PAR) was responsible for monitoring the commission's contracts prior to the decentralization of subrecipient monitoring in July 2004. Three of the 25 contracts tested (12%) that required monitoring were not monitored by PAR. Two of the contracts were not listed on the database of grant contracts to be monitored, which was provided to the auditors by PAR. Although commission personnel stated that they had included these contracts on the list of contracts provided to PAR, they could not provide documentation to support this statement. The third contract was a one-time computer grant; however, the contract for this grant states that it is subject to monitoring.

In addition to monitoring by PAR, commission personnel were required to conduct site visits for some grants. However, for 7 of the 25 contracts tested (28%), the commission could not provide documentation that site visits had been conducted. Two of the contracts are Federal Formula grants. Three of the contracts are Juvenile Accountability Block Grants (JABG). The remaining two are Court Appointed Special Advocate (CASA) grants. According to the Federal Formula and JABG grant applications, grantees will receive at least one on-site visit each year. In addition, according to the *County Resource Manual*, “[CASA] programs will be monitored on site at least twice per year by regional council coordinators and juvenile justice specialists. The purpose of the visit is to verify information provided on claims and progress reports, and to provide technical assistance.”

In addition, the commission did not submit a monitoring plan for 2005 as required by the Department of Finance and Administration’s (F&A) Policy 22, *Subrecipient Contract Monitoring*. According to F&A Policy 22, item 11, “All state agencies affected by this policy must develop and submit an annual monitoring plan, for review and approval, to the Department of Finance and Administration, Division of Resource Development and Support, by October 1st of each year, beginning in 2004.”

For 8 of the 25 contracts tested (32%), some actual line-item expenditures exceeded the line items in the approved grant budget. The total of the budget line items in question was \$84,296.00. The total of the related actual line-item expenditures was \$116,867.64, with a difference of \$32,571.64 in expenditures that exceeded the line-item budget. However, it should be noted that the total expenditures for each contract did not exceed the total grant award. According to the grant contracts, expenditures must adhere to the grant budget, and grant budget line-item revisions require prior written approval from the commission. Commission personnel could not provide documentation that prior written approval had been given for the line-item revisions.

Inadequate monitoring can lead to inappropriate expenditures, noncompliance with the terms of the contract, and unmet progress objectives.

### **Recommendation**

The Executive Director should ensure that all aspects of the grant contracts are met through adequate monitoring and that all monitoring efforts are documented in the grant files. The Executive Director should also ensure that the commission complies with F&A Policy 22. Commission personnel should not allow grantees to exceed the budget line items without prior written approval.

### **Management’s Comment**

We concur.

Over the years, the commission has taken a number of steps to improve controls over monitoring of grant contracts. Many of these steps occurred during the time monitoring was conducted by the Department of Finance and Administration's (F&A) Program Accountability Review (PAR) division, and were continued when the monitoring responsibility returned to the Tennessee Commission on Children and Youth (TCCY). In response to this audit finding, we have and will implement additional steps to ensure better controls over monitoring of grant contracts. Below is a description of the steps that have been or will be taken to improve monitoring controls and to assure better documentation of activities conducted pertaining to monitoring.

Program Monitoring: As a result of the decentralization of F&A monitoring, two staff who monitor compliance with contracts according to Policy 22 as specified by F&A were transferred to TCCY. Beginning with FY 2003-04, all grantees received a monitoring review either by desktop (i.e., grantee submits all material requested by the staff person(s) monitoring the program either by mail, fax or email) or on-site (i.e., TCCY staff visits the program site and reviews program and financial material). All monitoring files are now kept in the TCCY central office by the agency's Grants Program Monitor to assure an easily accessible location for documentation of monitoring activities. After each monitoring visit, an electronic copy of the monitoring report is sent to the Juvenile Justice Director who reviews the report and sends it electronically to the Juvenile Justice Specialist responsible for that particular program. If there are findings, an electronic copy is sent to the Executive Director for review. Juvenile Justice (JJ) Specialists follow-up with grantees and assist them in complying with Corrective Action Plan requirements, if assistance is needed. Corrective Action Plans from grantees are submitted to JJ Specialists. Following review to see if they are sufficient, copies are placed in the grant file and in the Grants Program Manager's monitoring files.

A list of all the programs to be monitored for the fiscal year is given to the Grants Program Manager by the Juvenile Justice Director. This list is generated from the TCCY fiscal department files of programs funded for the year. These include federal and state programs: Title V; Federal Formula Grants (FFG); Juvenile Accountability Block Grants (JABG); Enforcing Underage Drinking Laws (EUDL); State Supplement/Reimbursement Accounts; and Court Appointed Special Advocates (CASA). State Supplement/ Reimbursement Accounts and CASA programs are monitored once every three years due to the low risk category established by TCCY in the Monitoring Review Plan submitted to and approved by F&A in 2003. These programs can either be monitored by a desktop review or a monitoring visit. The *County Resource Manual* will be revised to reflect the current provisions for monitoring CASA programs.

On-site Visits by Commission Staff: TCCY Juvenile Justice (JJ) Specialists conduct on-site visits of Title V, FFG, JABG, and EUDL programs to provide technical assistance and view the program activities. However, agencies receiving funds for equipment only will have a desktop review or monitoring visit from the TCCY monitoring staff instead of an on-site visit from JJ Specialists. As of 2005, a copy of the on-site visit report will be kept in the central office by the Juvenile Justice Director. An additional copy will be placed in the grantees' grant files.

State Supplement/Reimbursement Accounts and CASA programs have monitoring visits or desktop reviews, but not on-site visits by JJ Specialists. Copies of those reports are kept in the

central office by the Grants Program Manager. A copy of the report will also be placed in the grantees' grant files.

Monitoring Plan to F&A: A list of programs to be monitored for FY 2004-05 was submitted to F&A. A full monitoring plan was not submitted. To ensure future compliance with this requirement, the Grants Program Manager will complete the Monitoring Review Plan each year and submit it to F&A by October 1<sup>st</sup>. Steps have already been taken to begin compilation of the information for the 2005 plan by: 1) Revising the monitoring tool guides used; 2) Making sure the risk assignment for grantees matches the established criteria; 3) Summarizing the program descriptions; and 4) Summarizing the findings of programs previously monitored.

Actual Line-Item Expenditures Exceeding Approved Budget Line Items: Previous contracts authorized grantees to shift funds among line items with prior written approval. As noted in the finding, prior written approval was not always provided before line item amounts were changed. However, no grantees exceeded the overall amount of the contract.

In 2000, TCCY began administering the JABG grants. TCCY followed the established policies of the Department of Children's Services, which included allowing JABG grantees to revise their budgets for up to 15 percent of the federal share of the award without prior written approval. For FY 2004-05 all grantees were allowed to make line item adjustments for up to 10 percent of the federal share of the award without prior written approval. However, after receiving new model contracts from F&A on July 22, 2005, specifying a change in procedures (See paragraph below from F&A), TCCY is in the process of revising the RFP applications and grantee contracts to reflect the change.

Budget Line-items. Expenditures, reimbursements, and payments under this grant contract shall adhere to the grant budget. The Grantee may request revisions of grant budget line-items by letter, giving full details supporting such request, provided that such revisions do not increase the total grant budget amount. Grant budget line-item revisions may not be made without prior, written approval of the State in which the terms of the approved revisions are explicitly set forth. Any increase in the total grant budget amount shall require a grant contract amendment.

Steps have been taken to include in the grantee orientation training an explanation of how prior approval of budget revisions must be made. Fiscal personnel have been and will continue to be trained on holding the reimbursement of expenses for budget revisions until written approval by the Juvenile Justice Director or Fiscal Officer is received. A letter from the TCCY Fiscal Division will be sent to all grantees to reinforce this procedure.

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## **CHILDREN'S PROGRAM OUTCOME REVIEW TEAM**

The Tennessee Commission on Children and Youth established the Children's Program Outcome Review Team (CPORT) in response to its mission to gather information about the status of Tennessee's children in order to better educate and advocate for their needs. The

commission has evaluated services to children in state custody and their families through CPORT's review process. CPORT collects, analyzes, and reports essential information about the population of children in state custody and their families. It measures the effectiveness of the service delivery system in order to promote positive system change and guide policy makers toward decisions that enhance the well-being of children and families.

The objective of our review of the commission's controls and procedures over the CPORT review process was to determine whether policies and procedures regarding CPORT reviews are adequate. We interviewed key commission personnel to gain an understanding of the commission's procedures and controls regarding CPORT reviews. We also reviewed a nonstatistical sample of CPORT external reviewers' files for the period July 1, 2001, to February 28, 2005.

Based on our review of the commission's controls and procedures, we determined that the policies and procedures were adequate, except that the commission does not verify that external CPORT reviewers meet the educational requirements. See finding 2.

## **2. The commission does not verify the educational background of external CPORT reviewers**

### **Finding**

The Children's Program Outcome Review Team (CPORT) is an information-gathering source for the status of children in an effort to advocate for their needs. CPORT collects, analyzes, and reports on data that will improve the effectiveness of services provided to children in state custody, and the team provides legislators and policy makers with information to enhance the well-being of children. The CPORT reviews are conducted in each of the 12 regions. In addition to a small full-time staff, the commission contracts with individuals who work with children at outside entities or individuals on a consultation basis to serve as external reviewers. The commission utilizes a delegated purchase authority for the external reviewer contracts.

According to the delegated purchase authority for an external reviewer for the CPORT, "The reviewer must possess a minimum of a BA degree in social work or related field, three years of direct service experience with children, and a broad knowledge of children's services in Tennessee. . . ." However, the commission does not verify that the external reviewers meet the educational requirements as specified in the delegated purchase authority. None of the external reviewer files contained official transcripts or other forms of official documentation from a college or university verifying that the educational requirements had been met. The only documentation on file of educational background was resumes.

If the educational background of external reviewers is not verified, the commission could contract with someone not qualified for the position.

## **Recommendation**

The commission should develop policies and procedures to ensure that the educational background of external reviewers is verified and documented.

## **Management's Comment**

We concur.

The Tennessee Commission on Children and Youth (TCCY) has historically asked external reviewers for a resume and references. References were checked, sometimes including asking about educational background. However, we did not routinely complete this step. In part, we had assumed it was not necessary because virtually all the external CPORT reviewers were employed by other agencies that required at least a bachelor's degree, and we assumed they had verified education.

Each external reviewer is required to submit a resume with three references. The resume is reviewed and verified through either the external reviewer's employer, or references provided to the CPORT Director. Each resume is then marked with a check or an "ok" or contains a reference form completed by the CPORT Director or CPORT staff. Once verified, the external reviewer is confirmed to participate in a mandatory training for certification as a CPORT reviewer. The reviewers are required to complete a comprehensive four-day training workshop, a week in the field shadowed by an experienced CPORT program coordinator, and a reliability check. The external reviewer must complete two field work experiences (serve as an external reviewer in two regions within the first year), complete reliability agreement checks regarding outcomes for children, and complete reliability checks in the use of special scoring instruments before certification as a CPORT external reviewer.

TCCY will continue to enforce these recruitment and training procedures. Additionally, we have revised the Reference Questionnaire for External Reviewer Applicants to add the following questions to the "External Reviewer Reference Questionnaire:"

- Does the applicant possess a degree in social work or related field (i.e., psychology, sociology, childhood development, counseling, etc.) and have you verified the applicant's education?
- Has a sex offender registry check been completed and what were the results?
- Has a criminal background check been completed and what were the results?

If employers have not verified applicants' educational credentials, we will require the applicants to provide a copy of their transcript or diploma. We are committed to taking whatever steps are necessary to avoid this becoming a recurring issue.

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## FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the commission's June 30, 2004; June 30, 2003; and June 30, 2002, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the commission's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the commission's procedures. We also reviewed the June 30, 2004; June 30, 2003; and June 30, 2002, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. No weaknesses were identified in the report.

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## OBSERVATIONS AND COMMENTS

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### REGIONAL COUNCIL BANK ACCOUNTS

Section 37-3-106, *Tennessee Code Annotated*, required the Tennessee Commission on Children and Youth to organize a regional council on children and youth in each of the nine development districts of the state. These nine regional councils are the ongoing communication

links between the commission and the various regional and local areas of the state. The councils perform information-gathering and problem solving tasks concerning services for children and youth. The councils are comprised of voluntary members from each respective region, and council membership ranges from 135 to 250 members per council depending on the region. Each council has an executive board that governs the council.

Section 37-3-106(c), *Tennessee Code Annotated*, requires the commission to provide each regional council with at least one locally based staff person to assist the council in performing its duties. The commission has placed a regional coordinator, who is a state employee, in each of the nine development districts. The regional coordinators are to coordinate, advise, and consult with the council; provide technical assistance to the council and community organizations serving children and youth; and act as liaison to the commission.

Each regional council maintains a bank account. These accounts were disclosed by the commission on the "Disclosure of Bank Accounts Form," which asks for both official and unofficial bank accounts. The form listed ten regional council bank accounts. (One council has two accounts.) The commission's fiscal officer had added a note to the form stating that the commission does not utilize these bank accounts. However, the note further stated that the regional coordinator in each council does have access to the funds for council activities. There are certain circumstances in the structure and operation of these accounts that raise questions about their connection with state government. These factors suggest that the accounts are not totally independent of the state and the commission.

The sources of funds for these accounts are primarily membership dues from council members. Other sources include fees from workshops, sponsorships, and donations. The funds from these bank accounts are primarily used for purchases related to council meetings and related council activities, such as workshops, room rentals, refreshments for meetings, trainers, speaker gifts, and donations to the community.

The regional coordinators are involved in the day-to-day operations of the councils. The regional coordinators also have other job duties assigned by the commission including monitoring of secure juvenile facilities and county jails in support of the Juvenile Justice and Delinquency Prevention Act.

The regional coordinators sometimes sign checks of the council or are otherwise involved in the financial operations of the council. The more responsibility and power a coordinator has, the greater the responsibility of the state to ensure that the actions of the coordinator are appropriate.

We did not audit these bank accounts. Our limited review of their operations revealed certain practices that we would recommend modifying. For example, not all bank reconciliations are documented or reviewed by an independent person.

An amendment to the commission's budget several years ago provided \$1,000 each, \$9,000 total, for council expenses. These funds are primarily used for travel for council

members to attend the commission's annual Children's Advocacy Days. The funds are also used to occasionally reimburse the councils for other expenses associated with carrying out the commission's mission. If the commission wishes to reimburse the council or provide funding on another basis, adequate controls and documentation should be maintained to ensure the funding is used for the intended reasons and there is adequate accountability for the funding. Transparency is important in any public operation. The commission and the council should recognize that there is the potential for fiscal agent abuse.

As required by Section 37-3-106(c), *Tennessee Code Annotated*, the commission established guidelines for the composition and operation of the regional councils. These guidelines state that the regional councils "shall have written regional procedures for handling funds." However, none of the regional councils had developed such procedures. The regional councils are inconsistent in their operations. For example, most regional coordinators can sign checks, but not all; most treasurers reconcile the bank statements, but not all; only a few have their bank reconciliations reviewed by someone independent of operations. The regional councils should develop procedures for handling funds. These procedures should include proper internal controls over the operation of the bank accounts and segregation of duties.

To ensure the fiscal independence of the regional councils, the regional coordinators should not handle council funds or be able to sign council checks. The treasurers of the regional councils, who are not commission employees, should handle all funds and maintain the bank accounts.

## **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.

## AUDIT COMMITTEE RECOMMENDATIONS

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that agencies with boards establish audit committees. The Tennessee Commission on Children and Youth has recently established an audit committee. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets. Also, the board and the audit committee should keep in mind that agencies receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure

- implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
  5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller of the Treasury's office as well as a process for immediately reporting such information.
  6. Immediately inform the Comptroller's office when fraud is detected.
  7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies, and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. An express recognition that the board, the audit committee, and the management and staff of the agency are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.
6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about its particular audit committee. There are also other audit committees at other state agencies that the board may wish to contact for advice and further information.

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

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.