AUDIT REPORT

Tennessee Commission on Aging and Disability

February 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

TENNESSEE COMPTROLLER OF THE TREASURY

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

Kandi Thomas, CPA, CFE
Assistant Director

Ronald E. Anderson, CPA, CFE
Aaron Jewell, CPA, CFE
Audit Managers

Tuan Le, CPA, CFE
In-Charge Auditor

Benjamin Elliott
Staff Auditor

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

February 24, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Mike Hann, Executive Director
Tennessee Commission on Aging and Disability
Suite 825, Andrew Jackson State Office Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Commission on Aging and Disability for the period June 1, 2005, through March 31, 2008.

We conducted our audit in accordance with generally accepted government auditing standards. 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 Aging and Disability's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Commission on Aging and Disability 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 a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

We have reported other less significant matters involving the commission's internal control and instances of noncompliance to the commission's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj
08/061

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Tennessee Commission on Aging and Disability
February 2009

AUDIT SCOPE

We have audited the Tennessee Commission on Aging and Disability for the period June 1, 2005, through March 31, 2008. 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 conflicts of interest; the Social Assistance Management System; the commission's administrative expenditures; subrecipient contract monitoring; federal grants; the Financial Integrity Act; and risk assessment. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

The Commission Did Not Comply With the Financial Integrity Act
The commission did not submit the required letters that were due by June 30, 2007, and June 30, 2006, acknowledging responsibility for maintaining internal control to the Commissioner of Finance and Administration or the Comptroller. The internal accounting and administrative control report that was due by December 31, 2007, was received by the Comptroller on March 31, 2008, 91 days late.

Financial and Compliance Audit
Tennessee Commission on Aging and Disability

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Financial and Compliance Audit
Tennessee Commission on Aging and Disability

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Commission on Aging and Disability. 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."

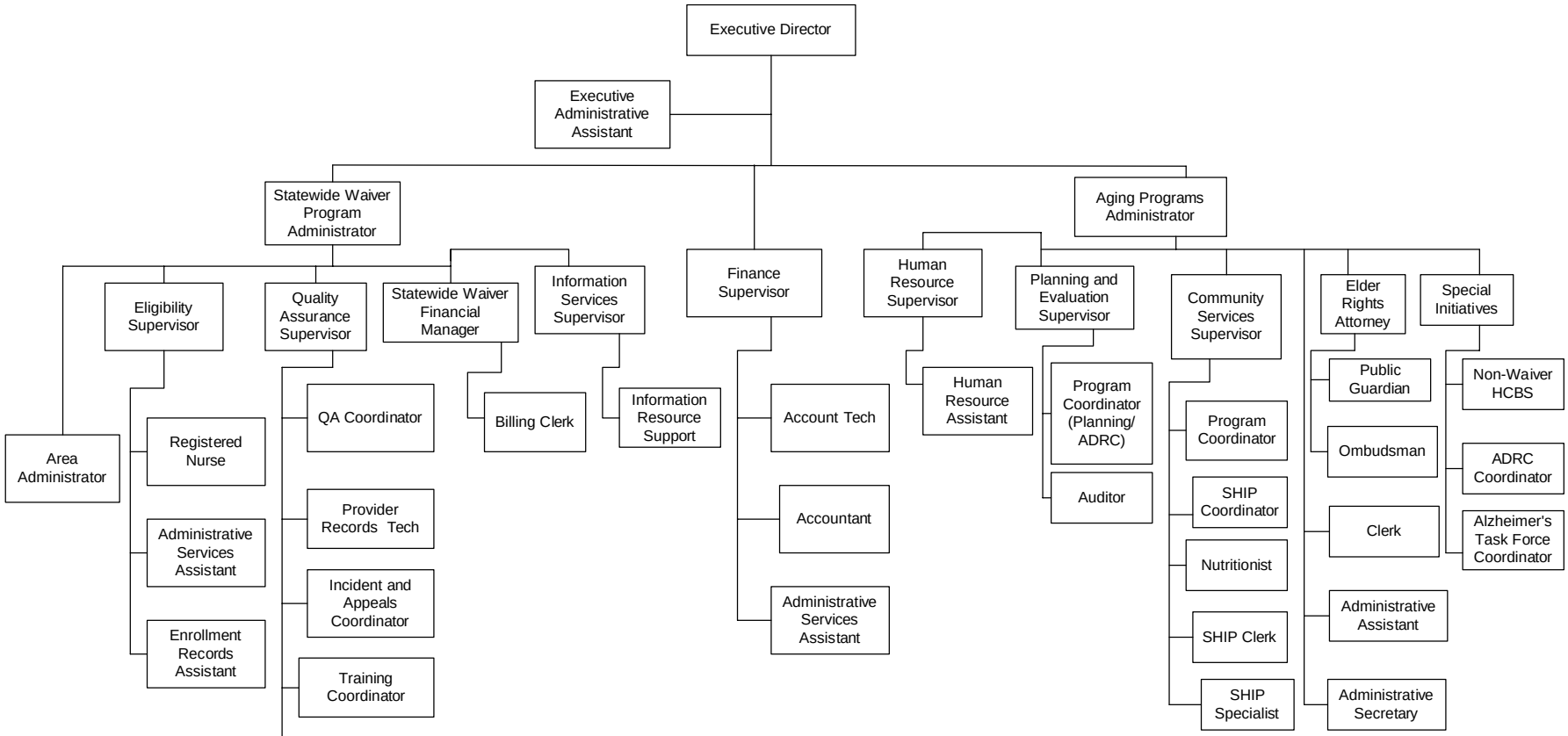
Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Commission on Aging and Disability, currently authorized under Section 71-2-101, *Tennessee Code Annotated*, was created by the Tennessee General Assembly in 1963 and is designated as the state agency on aging by the Governor. As the state agency on aging, the commission is mandated by the Older Americans Act [42 U.S.C.A. 3001] to provide leadership relative to all aging issues on behalf of older persons in the state and advocates within state government for older Tennesseans. The commission serves as a clearinghouse for information on needs characteristic of older Tennesseans and of adults with disabilities needing home and community services. In addition to responding to requests for information, in 2001 the commission's responsibilities were expanded to include planning, coordinating, and implementing home and community based long-term care services for adults with disabilities. The commission consists of 25 members: 18 members appointed by the Governor; 2 non-voting representatives appointed by the Speakers of the Senate and House of Representatives; the commissioners of Health, Human Services, Veterans Affairs, and Mental Health and Developmental Disabilities; and the Director of the Council on Developmental Disabilities. Approximately 95% of the commission's expenditures go to nine Area Agencies across the state designated by the commission to plan for and provide services to older Tennesseans and adults with disabilities.

An organization chart of the commission is on the following page.

Tennessee Commission on Aging and Disability
Organization Chart



Key:

ADRC - Aging and Disability Resource Centers

HCBS - Home and Community Based Services

QA - Quality Assurance

SHIP - State Health Insurance Assistance Program

AUDIT SCOPE

We have audited the Tennessee Commission on Aging and Disability for the period June 1, 2005, through March 31, 2008. 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 conflicts of interest; the Social Assistance Management System; the commission's administrative expenditures; subrecipient contract monitoring; federal grants; the Financial Integrity Act; and risk assessment. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDINGS

Section 8-4-109, *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 Tennessee Commission on Aging and Disability filed its report with the Department of Audit on June 29, 2006. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Tennessee Commission on Aging and Disability has corrected previous audit findings concerning its noncompliance with Department of Finance and Administration Policy 20, the commission's inadequate monitoring of its Area Agencies, and the lack of controls and security over the Social Assistance Management System (SAMS).

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CONFLICTS OF INTEREST

Our objective was to determine whether commission members as well as employees involved in obtaining, approving, or overseeing contracts have properly discussed required information and signed conflict-of-interest forms in compliance with commission rules and policies.

We obtained a list of commission members from management. We also interviewed management to identify all employees who were involved in obtaining, approving, or overseeing

contracts. We then requested signed conflict-of-interest forms for each current commission member and all employees who had responsibilities for obtaining, approving, or overseeing contracts. We reviewed the forms to determine if commission members and employees properly disclosed information in accordance with commission rules and policies, and if commission members and employees signed the forms.

As a result of our inquiries and testwork, we concluded that commission members as well as employees involved in obtaining, approving, or overseeing contracts have properly disclosed required information and signed conflict-of-interest forms in compliance with commission rules and policies.

SOCIAL ASSISTANCE MANAGEMENT SYSTEM

The Social Assistance Management System (SAMS) is a privately owned, web-based interactive database that contains all pertinent personal information on clients served by the various Senior Adult programs overseen by the commission. This includes social security numbers; home addresses; and demographic information such as gender, ethnicity, income level, disabilities, and programs in which each client participates. This database is used by both the commission and the nine local Area Agencies. These nine agencies are part of a statewide network of quasigovernmental organizations which carry out services for the aged that are funded in part through grants from the commission.

Our objectives for reviewing the Social Assistance Management System (SAMS) were to determine whether

- the commission had obtained a formal agreement with the vendor of SAMS;
- the client information in SAMS was adequately protected from unauthorized access;
- the commission employees' access to SAMS had been properly limited to read-only; and
- access to SAMS was limited to active commission and Area Agencies' employees whose job duties required such access.

To accomplish our objectives, we obtained and reviewed the agreement between the commission and the vendor of SAMS. We asked the commission's management, Area Agencies' employees, and other users about their user access security. We interviewed the commission's employees and physically verified that the commission employees' level of access had been changed to read-only and they could no longer write, delete, or change client information on SAMS. We obtained a list of individuals who had access to SAMS in February 2008 from the commission's Information Services Supervisor. We then requested the nine Area Agencies' SAMS Administrators to confirm the completeness and accuracy of the users listed under their agencies. We selected a nonstatistical sample of 25 users' access and discussed with the Area Agencies' SAMS administrators to determine whether access was limited to active employees whose job duties required such access.

As a result of our discussions and testwork, we found that

- the commission had obtained a formal agreement with the vendor of SAMS;
- the client information in SAMS was adequately protected from unauthorized access;
- the commission employees' access to SAMS had been properly limited to read-only; and
- access to SAMS was limited to active commission and Area Agencies employees whose job duties required such access.

COMMISSION'S ADMINISTRATIVE EXPENDITURES

Our objectives were to determine whether

- the commission's administrative expenditures were properly approved, adequately supported, accurately calculated, reasonable, and properly recorded;
- the allocation of administrative expenditures by program and cost center was reasonable;
- there were reasonable explanations for significant variances in expenditure-per-employee; and
- salaries and related benefits charged to cost centers in the Labor Distribution Report were commensurate with actual activities.

We obtained the commission's expenditure records for fiscal years 2006 and 2007 maintained on the State of Tennessee Accounting and Reporting System (STARS). We then summarized these expenditures by cost centers and obtained the descriptions of the expenditures under each cost center. To determine the administrative expenditures incurred by the commission, we excluded all expenditures paid to the nine Area Agencies. We then selected a nonstatistical sample of 27 items from the population of administrative expenditures incurred by the commission. We obtained the support for these 27 expenditures and interviewed the commission's employees to determine whether expenditures were properly approved, adequately supported, accurately calculated, reasonable, and properly recorded. In addition to the above tests, we also analyzed the commission's allocations of administrative expenditures between its various programs. We obtained its Labor Distribution Report by Cost Centers for the pay period ended February 14, 2008. In order to determine the reasonableness of charges by cost center, we calculated the average of administrative expenditure per employee under each cost center for fiscal years 2006 and 2007 and compared it to the overall average. We obtained explanations and support for cost centers where the variances of expenditure-per-employee were 10% or more of the overall average. In addition, we interviewed employees and their supervisors to determine whether employees' salaries and related benefits charged to the cost centers in the Labor Distribution Report were commensurate with their actual activities.

As a result of our discussions and testwork, we determined that

- the commission's administrative expenditures were properly approved, adequately supported, accurately calculated, reasonable, and properly recorded;
- the allocation of administrative expenditures by program and cost center was reasonable;
- there were reasonable explanations for significant variances in expenditure-per-employee; and
- salaries and related benefits charged to cost centers in the Labor Distribution Report were commensurate with actual activities.

SUBRECIPIENT CONTRACT MONITORING

The objectives of our review of the controls and procedures over subrecipient contract monitoring were to determine whether

- subrecipients were monitored by the commission;
- the commission's fiscal year 2008 monitoring plan included all areas required by Department of Finance and Administration (F&A) Policy 22, *Subrecipient Contract Monitoring*;
- findings noted during monitoring were supported by working papers; and
- the commission received corrective action reports from subrecipients that had findings.

We interviewed key personnel and reviewed policies and procedures to gain an understanding of the commission's procedures and controls over subrecipient contract monitoring. We obtained a list of monitoring reviews completed by the commission's quality assurance auditors from July 1, 2005, through February 2008. We obtained and reviewed the working papers of monitoring reviews to determine if findings noted during monitoring were supported by the working papers. The commission's fiscal year 2008 monitoring plan was obtained and reviewed to ensure that the monitoring included all required areas. We also obtained from management and reviewed corrective action plans for subrecipients that had findings.

Based on our review, we determined that

- subrecipients were monitored by the commission;
- the commission's fiscal year 2008 monitoring plan included all areas required by F&A Policy 22;
- findings noted during monitoring were supported by working papers; and
- the commission received corrective action reports from subrecipients that had findings.

FEDERAL GRANTS

Our objectives for reviewing federal grants were to determine whether

- the exemption from the Department of Finance and Administration's (F&A) Policy 20, *Recording of Federal Grant Expenditures and Revenues*, was approved by the Chief of the Division of Accounts;
- there was support for federal grant expenditures; and
- federal cash drawdowns were supported by expenditures.

To accomplish our objectives, we interviewed key management and reviewed policies and procedures over federal grants to gain an understanding of the controls and procedures over federal grant expenditures and revenues. We obtained and reviewed the exception letter exempting the commission from Policy 20 requirements. To determine that there was support for federal cash grant expenditures, we selected the 2006 and the 2007 local Area Agencies reviewed in the Subrecipient Contract Monitoring section above and examined invoices. To determine that there was support for federal grant expenditures, we reconciled expenditures made to local agencies to federal draws.

As a result of our inquiries and testwork, we concluded that

- the exemption from F&A Policy 20, *Recording of Federal Grant Expenditures and Revenues*, was approved by the Chief of the Division of Accounts;
- there was support for federal grant expenditures; and
- federal cash drawdowns were supported by expenditures.

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 objective was to determine whether the commission's June 30, 2007; June 30, 2006; and June 30, 2005, responsibility letters and December 31, 2007, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We determined that the financial integrity act responsibility letter was submitted for June 30, 2005, to the Comptroller of the Treasury and the Department of Finance and Administration.

However, we found that the commission did not submit the June 30, 2007, or the June 30, 2006, responsibility letters by the deadlines. We also determined that the internal accounting and administrative control report was not submitted by the deadline. See the finding below.

The commission did not comply with the Financial Integrity Act

Finding

For the audit period June 1, 2005, through March 31, 2008, the Tennessee Commission on Aging and Disability did not comply with the Financial Integrity Act requirements. Section 9-18-104, *Tennessee Code Annotated*, which was in effect during the audit period, 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.

The commission did not submit the required letters acknowledging responsibility for maintaining internal control to the Commissioner of Finance and Administration or the Comptroller that were due by June 30, 2007, and June 30, 2006. The commission submitted the letter due by June 30, 2005, timely. The internal accounting and administrative control report that was due by December 31, 2007, was received by the Comptroller on March 31, 2008, 91 days late.

Recommendation

The Executive Director should take responsibility for developing, implementing, and monitoring effective internal controls by complying with all requirements of the Financial Integrity Act, including submitting the required letters and reports to the Commissioner of the Department of Finance and Administration and the Office of the Comptroller of the Treasury by the submission deadlines.

Management's Comment

We concur with the finding. The current staff thought the letters had been submitted on time; however, they are unable to find the letters in the files. The person who served as the Executive Director during that time period is no longer with the agency. There were no changes in the internal controls during the time period that would adversely affect the reports or cause the failure to report. This was verified with the review conducted prior to completing the Internal Accounting and Administrative Control report that was due on December 31, 2007.

We concur that the Internal Accounting and Administrative Control report that was due on December 31, 2007, was not submitted timely. As noted above, the Executive Director resigned and an Acting Director was appointed from September-December, 2007. The new Executive Director, Mike Hann, needed orientation time as well as time to complete the review prior to signing reports. The necessary reviews were completed with the assistance of Finance & Administration's Office of Shared Services; however, the report was filed late. The timeliness issue has been corrected as evidenced by the early submission of the report on December 19, 2008, after it was reviewed by the Office of Shared Services.

We have also placed the Audit Committee of the Commission in the review process for all future reporting with duties including more in depth review of operating procedures within the agency.

RISK ASSESSMENT

Our objective was to determine whether the commission had assessed the commission's risks of errors, fraud, waste, and abuse. We interviewed key personnel to determine the status of the risk assessment process. We then obtained and reviewed the risk assessment, made appropriate inquiries, and reviewed supporting documents. We determined that management of the commission had fulfilled their responsibility to formally assess the commission's risks of errors, fraud, waste, and abuse.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management

override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, 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, 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

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;

2. evaluating management's assessment of risk and the agency's system of internal controls;

3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;

4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and

6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

In a previous audit report, we recommended that the commission establish an audit committee. The board of the commission appointed a five-member committee on August 4, 2005. The audit committee charter was approved by the Comptroller of the Treasury on July 10, 2006. Additionally, the audit committee has met several times, first meeting on February 13, 2006. Among other things, the audit committee has been briefed on the commission's conflict-of -interest policy and the results of recent audits performed on the commission by the Comptroller of Treasury's Division of State Audit. As of December 2008, the audit committee also has notified the Comptroller of the Treasury of indications of fraud; reviewed the commission's code of conducts; reviewed management's risk assessment; reviewed the commission's internal control structure; and been informed on the commission's process for monitoring compliance with law and regulations. The audit committee has not yet performed the following responsibilities: ensuring procedures exist for handling of complaints; establishing a process for people to confidentially report suspected illegal, improper, wasteful, or fraudulent activity; or formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse.

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 Aging and Disability filed its compliance reports and implementation plans on September 21, 2005; June 30, 2006; and June 26, 2007.

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. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

The Tennessee Commission on Aging and Disability uses allotment code 316.02.