TENNESSEE COMMISSION ON AGING

FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994

Arthur A. Hayes, Jr., CPA
Director

Charles K. Bridges, CPA
Assistant Director

Ronald E. Anderson, CPA
Audit Manager

Patricia L. Wakefield, CPA
In-Charge Auditor

Robert W. Burns
Britt Wood
Staff Auditors

Leslie Bethea
Editor

January 13, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Emily M. Wiseman, Executive Director
Tennessee Commission on Aging
500 Deaderick Street, Ninth Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Tennessee Commission on Aging for the years ended June 30, 1995, and June 30, 1994.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The commission's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
96/108

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Compliance Audit
Tennessee Commission on Aging
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the commission's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL AND COMPLIANCE FINDINGS

Inadequate Monitoring of Area Agencies' Title III Spending Levels*
The commission did not adequately monitor its area agencies for Title III Priority Services spending levels (page 9).

Drawdowns for Indirect Costs Were Not Made Timely or Correctly*
The commission recovered statewide indirect costs in excess of the amount allowed. Drawdowns of federal funds for indirect costs were also overdrawn and were not made in a timely manner. Therefore, the state, in effect, financed the operation of the various federal programs until the draws were made (page 11).

* This finding is repeated from the prior audit.

Internal Accounting Reports Not Reconciled With Area Agency Reports*
The commission did not reconcile internally generated accounting reports used in the preparation of the federal Financial Status Report (FSR) with the reports received from the area agencies. Although the area agencies used a standard reporting form, there were still inconsistencies and undocumented adjustments. In many cases, the amounts on the FSRs did not agree with the amounts reported on the commission's internally generated reports. Subsequent FSRs were not revised to correct misstatements on previous reports (page 10).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE COMMISSION ON AGING
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Post-Audit Authority	1
Objectives of the Audit	1
Scope of the Audit	1
BACKGROUND AND ORGANIZATION	2
Legislative History	2
Organization	3
PRIOR AUDIT FINDINGS	3
Resolved Audit Findings	3
Repeated Audit Findings	3
OBSERVATIONS AND COMMENTS	5
RESULTS OF THE AUDIT	5
Audit Conclusions	5
Report on the Internal Control Structure	7
Findings and Recommendations	9
1. Title III priority services spending levels are not adequately monitored	9
2. The commission did not reconcile its internal accounting reports with reports from the area agencies	10

TABLE OF CONTENTS (CONT.)

	Page
3. Drawdowns for indirect costs were not made timely or for correct amounts	11
Compliance Report	13

TENNESSEE COMMISSION ON AGING
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the compliance audit of the Tennessee Commission on Aging. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes 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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the commission's internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants;

2. to test compliance with certain laws, regulations, contracts, or grants; and

3. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit is limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

The legislature created the Tennessee Commission on Aging in 1963. The most recent authorizing legislation is the Tennessee Commission on Aging Act of 1984. The commission consists of 24 members, 22 of whom are appointed by the Governor: nine rural representatives, five urban representatives, five members from the Governor's staff and cabinet, two members from aging advocacy organizations, and one member with expertise in gerontology or geriatrics from an academic institution in the state. The speakers of the House of Representatives and the Senate each appoint one legislator to serve *ex officio*.

Under state statute, the commission is authorized to do the following:

- Allocate funds for projects and programs for older persons
- Accept and administer funds from the federal government and private sources
- Serve as an advocate within government and in the community for older persons in Tennessee
- Designate planning and service areas and area agencies on aging
- Advise the Governor and heads of state departments and agencies regarding policies, programs, services, allocation of funds, and the needs of older persons in Tennessee
- Make recommendations for legislative action to the Governor and to the legislature

The commission is also authorized to stimulate more effective uses of existing resources and services for older persons and to develop opportunities and services not otherwise available, with the aim of developing a comprehensive and coordinated system for the delivery of health and social services to older persons.

The Public Guardianship for the Elderly Law was established in 1986 to aid disabled persons over the age of 60 who have no person willing and able to serve as conservator or guardian. The law requires the Commission on Aging to administer the statewide program and requires the development districts to hire staff to serve as district public guardians.

ORGANIZATION

Under the leadership of the director and the assistant director, the commission has five organizational sections: planning services, community services, fiscal and administrative services, advocacy/elderly rights services, and support services. Additionally, the commission administers an employment program for the elderly which is directed by an employment services coordinator.

An organization chart of the Tennessee Commission on Aging is on the following page.

The Tennessee Commission on Aging is part of the general fund of the State of Tennessee and is responsible for the following division and allotment code: 316.02 - Tennessee Commission on Aging.

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 filed its report with the Department of Audit on August 2, 1995. 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 commission has corrected previous audit findings concerning controls over receipts and disbursements, compliance with Department of Finance and Administration Policies and Guidelines, and timely processing of subgrantee invoices.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning reconciliations of internal accounting reports with reports from the area agencies and timely drawdowns for indirect costs. These findings have not been resolved and are repeated in this report.

Additionally, the prior audit report contained a finding regarding monitoring of area agencies. Although management has implemented some of the prior audit recommendations, the finding is not completely resolved. Therefore, the finding is repeated in part.

OBSERVATIONS AND COMMENTS

Tennessee Code Annotated, Section 4-21-901, 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, 1994, and each June 30 thereafter. For the year ended June 30, 1995, the Tennessee Commission on Aging filed its compliance report and implementation plan on June 30, 1995, and for the year ended June 30, 1994, on June 29, 1994.

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 ground of race, color, or national 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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for the Title VI compliance and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

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.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

<u>Internal Control Structure</u>

We considered the internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants. The report on the internal control structure is on the following pages. Certain deficiencies, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure.

Compliance with Laws and Regulations

With respect to the items tested, the Tennessee Commission on Aging complied with the provisions of certain laws, regulations, contracts, or grants except for certain instances of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

Report on the Internal Control Structure

April 26, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the commission's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated April 26, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

We considered the commission's internal control structure in order to determine our procedures for the purpose of testing the commission's compliance with certain laws, regulations, contracts, or grants and not to provide assurance on the internal control structure.

The Tennessee Commission on Aging's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the commission's ability to comply with laws, regulations, contracts, or grants. However, we did note the following deficiencies:

- Title III priority services spending levels are not adequately monitored
- The commission did not reconcile internal accounting reports with reports from the area agencies
- Drawdowns for indirect costs were not made timely or for correct amounts

We also noted certain matters involving the internal control structure and its operation that we have reported to the commission's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

FINDINGS AND RECOMMENDATIONS

TITLE III PRIORITY SERVICES SPENDING LEVELS ARE NOT ADEQUATELY MONITORED

1. FINDING:

As noted in the prior audit, the Tennessee Commission or Aging does not monitor Title III priority services spending levels at the area agencies. Management responded that they would ensure that the area agencies complied with spending levels established for Title III programs. The commission developed these spending levels to ensure compliance with the Older Americans Act.

The levels in effect for the year ended June 30, 1994, were calculated based on actual spending in fiscal year 1987 and as a percentage of the total award by area agency for Title III support services. Although the spending levels are based on the area agencies' budgeted amounts, the commission does not perform any analytical comparison of actual expenditures to budgeted expenditures to ensure that the agency is complying with the established spending levels. For the year ended June 30, 1994, two of the nine Title III area agencies spent less than the amounts allocated to them for access services, two spent less for in-home services, and two spent less for legal assistance services.

The minimum funding levels were changed to flat rates applicable to all area agencies for the year ended June 30, 1995. For this year, one agency spent less than the allocated amount for in-home services, and another underspent legal assistance services.

If the commission does not adequately monitor the spending for priority services at the area agency level, noncompliance with established requirements could occur and could jeopardize future funding from the grantor.

RECOMMENDATION:

The commission's fiscal personnel should develop a system to monitor expenditures for priority services. One employee of the commission should be assigned the responsibility of ensuring that the area agencies are complying with the spending levels established for Title III priority services. This monitoring should occur prior to the end of the fiscal year.

If the area agencies meet the objectives of providing priority services without spending all of the funds allocated, the agency should request a waiver from the commission. If priority spending levels are not met and no waiver is justified, the commission should take appropriate action.

MANAGEMENT'S COMMENT:

We concur. We will monitor priority service expenditures throughout the year.

THE COMMISSION DID NOT RECONCILE ITS INTERNAL ACCOUNTING REPORTS WITH REPORTS FROM THE AREA AGENCIES

2. FINDING:

As noted in the two previous audits for fiscal years ended June 30, 1993, and June 30, 1992, the Tennessee Commission on Aging did not reconcile reports received from the area agencies with the commission's internally generated accounting reports. Management concurred with the findings and stated that they had established a standardized quarterly report form which ensures that the quarterly reports are consistent across the state. They also established cut-off dates for filing revisions to the final quarterly report. Management did not, however, specifically address the recommended reconciliation of its reports to the reports prepared by the area agencies.

Management did implement a standardized quarterly report form in the fiscal year ended June 30, 1995. Information submitted by the area agencies was combined, along with allowable administrative costs of the commission, to produce the federal Financial Status Report (FSR). The computer program initially developed to combine the area agencies' reports contained several deficiencies in design; as a result, the financial information from the area agencies was combined incorrectly for inclusion in the FSR.

Several significant unreconciled differences were noted between the area agencies' reports and the combined reports prepared by the commission for both the fiscal years ended June 30, 1994, and June 30, 1995. As a result, incorrect FSRs were submitted to the grantor. Title III expenditures were overstated by $730,869 for the period October 1, 1993, through June 30, 1994, and by $102,716 for the period from October 1, 1994, through June 30, 1995. In addition, no adjustments have been made to subsequent FSRs for the $472,984 overstatement for the period from October 1, 1992, through September 30, 1993, noted in the finding in the previous audit for the fiscal year ended June 30, 1993, which was released in February 1995.

The commission did not perform a timely reconciliation of the combined amounts with the total of the individual reports submitted by the area agencies. This reconciliation would have detected the errors inherent in the design of the computer program developed to combine the information submitted by the area agencies. The resulting overstatement of expenditures would also have been detected prior to submission of the FSR. No revisions were made to subsequent FSRs when management became aware of the errors made in combining the reports from the area agencies.

Section .20(b)(2) of the Office of Management and Budget's "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)" states, "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities." When proper reconciliations between the area agencies' reports and the commission's reports are not performed and documented, and revisions to subsequent federal reports are not made and documented in the accounting records, the validity of the data used for reporting purposes cannot be determined. Furthermore, errors in reporting may remain undetected and amounts reported to the grantor may be inadequately supported.

RECOMMENDATION:

Quarterly, the commission's fiscal personnel should reconcile reports generated by the area agencies with the combined reports prepared by the commission. Additionally, amounts reported as revenues by the area agencies should be reconciled with the amounts disbursed to them by the commission. Revisions to the Financial Status Reports resulting from errors in prior reporting periods should be made timely by the commission's fiscal personnel and should be clearly identified in the commission's accounting records. The commission should make necessary changes to the computer program and take care in any future modifications of the programs.

MANAGEMENT'S COMMENT:

We concur. We now have standardized financial reporting which will allow us to more easily reconcile reports.

DRAWDOWNS FOR INDIRECT COSTS WERE NOT MADE TIMELY OR FOR CORRECT AMOUNTS

3. FINDING:

As noted in the previous two audits, the Tennessee Commission on Aging did not recover the correct amount of indirect costs or draw down federal funds for indirect costs timely. Indirect costs are statewide joint costs that departments incur in rendering services to agencies and administering federally funded programs. Since the commission did not make timely drawdowns of all recoverable amounts, the state, in effect, financed the operation of the various federal programs until the draws were made. The commission responded to similar findings in two prior audits by stating that it would attempt to collect eligible indirect costs; however, the commission once again did not recover all allowable costs.

Funds earned by the commission for the period July 1, 1993, to June 30, 1994, were not requested from the grantor until February 3, 1995. There were $477 of excess statewide indirect costs recovered, and $313 in funds for indirect costs were overdrawn from the Title V grant. Funds earned for the period from July 1, 1994, to June 30, 1995, were not requested until August 18, 1995. Title V indirect costs for this period were overdrawn by $97.

RECOMMENDATION:

The commission's fiscal personnel should ensure that all eligible commission and state-wide indirect costs are recovered in the correct amounts and that reimbursements are drawn timely.

MANAGEMENT'S COMMENT:

We concur. We will drawdown indirect costs as they are earned.

Compliance Report

April 26, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the Tennessee Commission on Aging's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994. We performed the procedures in accordance with generally accepted government auditing standards.

Compliance with laws, regulations, contracts, or grants applicable to the Tennessee Commission on Aging is the responsibility of the commission's management. Our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that the Tennessee Commission on Aging complied with the provisions referred to in the preceding paragraph, except for certain instances of noncompliance included in the Findings and Recommendations section of this report. We also noted other less significant instances of noncompliance that we have reported to the commission's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr