

Davidson County Metropolitan Community Services Agency

**For the Year Ended
June 30, 2001**

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

Edward Burr, CPA
Assistant Director

Elizabeth M. Birchett, CPA
Audit Manager

Nicole Chamblee
Auditor

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

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

Financial/compliance audits of community services agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

October 15, 2002

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

Board of Directors

Davidson County Metropolitan Community Services Agency

700 Second Avenue, Suite 200

Nashville, Tennessee 37210

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Davidson County Metropolitan Community Services Agency for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management 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.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/067

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Davidson County Metropolitan Community Services Agency
For the Year Ended June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

The CSA Is Not Operating as a Distinct Entity Separate From the County

The distinction between the Davidson County Metropolitan Community Services Agency (CSA) and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate (page 7).

The CSA Has Not Established or Maintained Adequate Business Records

The CSA does not have adequate accounting records including a general ledger, chart of accounts, or trial balance. In addition, the CSA could not readily provide copies of invoices, accounting reports, bank statements, or other official records (page 10).

The CSA Did Not Monitor Its Contract With the Metropolitan Government

The CSA has not monitored the Metropolitan Government of Nashville and Davidson County's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract (page 14).

The CSA Incurred Expenses Without an Executed Contract

The CSA allowed the metropolitan government to provide services for more than nine months of the fiscal year ended June 30, 2001, before a properly approved and executed contract was in place (page 15).

Two of the reportable conditions described above were considered material weaknesses:

- The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County.
- The CSA has not established or maintained adequate business records.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions (page 5).

COMPLIANCE FINDINGS

The CSA Transferred \$273,615.96 in Violation of State Statute

During the year ended June 30, 2001, the CSA transferred \$273,615.96, including a “donation” of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute. The transfer was not included in the Plan of Operation or subsequent amendments and was not approved by the

appropriate state officials (page 12).

The CSA Did Not Submit Its Annual Report in Compliance With State Law

The Davidson County Metropolitan Community Services Agency did not prepare and submit its annual report in compliance with state law. No report for the fiscal year ended June 30, 2001, has been issued (page 15).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

“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) 401-7897

Financial/compliance audits of community services agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.

Audit Report
Davidson County Metropolitan Community Services Agency
For the Year Ended June 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
OBJECTIVES OF THE AUDIT	2
PRIOR AUDIT FINDINGS	2
RESULTS OF THE AUDIT	3
Audit Conclusions	3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	4
Findings and Recommendations	7
Finding 1 – The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County	7
Finding 2 – The CSA has not established or maintained adequate business records	10
Finding 3 – The CSA transferred \$273,615.96, including a “donation” of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute	12
Finding 4 – The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County	14

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Finding 5 – The CSA incurred expenses without an executed contract		15
Finding 6 – The CSA did not submit its annual report in compliance with state law		16
FINANCIAL SECTION		
Independent Auditor’s Report		17
Financial Statements		19
Balance Sheet	A	19
Statements of Revenues, Expenditures, and Changes in Fund Balance	B	20
Notes to the Financial Statements		21
APPENDIX		25
Board of Directors		25

**Davidson County Metropolitan Community Services Agency
For the Year Ended June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Davidson County Metropolitan Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The governing body of the Davidson County Metropolitan Community Services Agency is the board of directors. As of June 30, 2001, the board was composed of 11 members. (See Appendix.)

The Davidson County Metropolitan Community Services Agency entered into an agreement with the Metropolitan Government of Nashville and Davidson County for day-to-day operations. All records, purchasing, accounting, and financial procedures are subject to the policies and procedures of the Metropolitan Government of Nashville and Davidson County, except in the case of a conflict between the state’s and metropolitan government’s rules and regulations. In such a case, the policies and procedures of the state prevail. The administrative liaison to the board is the custodian of the funds and reports to the board chair and the board of directors on the status of the programs.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. The Davidson County Metropolitan Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, and contracts;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Davidson County Metropolitan Community Services Agency's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed two material weaknesses.

Compliance

The results of our audit tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This instance of material noncompliance and an immaterial instance of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Davidson County Metropolitan Community Services Agency's financial statements.



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

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 4, 2002

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

Dear Mr. Morgan:

We have audited the financial statements of the Davidson County Metropolitan Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 4, 2002. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Davidson County Metropolitan Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The following instance of noncompliance was noted:

- The CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute

The instance is described in the Findings and Recommendations section of this report.

We also noted an immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Davidson County Metropolitan Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- The CSA is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County
- The CSA has not established or maintained adequate business records
- The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County
- The CSA incurred expenses without an executed contract

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses:

The Honorable John G. Morgan
March 4, 2002
Page Three

- The CSA is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County
- The CSA has not established or maintained adequate business records

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

1. **The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County**

Finding

State statute establishes 12 Community Services Agencies, each agency a political subdivision and instrumentality of the state, to provide services to children and other citizens in Tennessee. The services provided by the Davidson County Metropolitan Community Services Agency (CSA) are funded through a contractual agreement with the Tennessee Department of Children’s Services (DCS). Unlike the other 11 Community Services Agencies, the Davidson County Metropolitan CSA has no employees and does not own or lease any equipment or real estate. The CSA contracts with the Metropolitan Government of Nashville and Davidson County for the operation of its programs.

The distinction between the Davidson County Metropolitan CSA and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate. Furthermore, both of the individuals responsible for the business functions of the CSA are metropolitan government employees. Since most of the CSA’s business relates directly to the CSA’s relationship with the metropolitan government, relying on the metropolitan government to perform the CSA’s business functions does not give the CSA adequate control over its operations. Transactions are not independently scrutinized to verify that the interests of the CSA are protected. Without adequate control, the CSA cannot ensure that its assets are adequately protected and its financial transactions appropriately classified and correctly recorded.

Within the organizational structure of the metropolitan government, the office operating the programs under the CSA contract is called “Caring for Children” (CFC). The director of CFC serves as the Executive Director of the CSA, and the CSA’s Fiscal Director is also a metropolitan government employee involved with CFC.

The CSA’s contract with the metropolitan government delegates the CSA’s responsibility for the management and delivery of its programs to the metropolitan government through the contract’s scope of services. Although the CSA delegated its administrative responsibility to the metropolitan government, most of the business reflected in the minutes of the CSA board of directors meetings relates to the administration of the metropolitan government’s CFC program. It appears that the board is actually functioning as a board of directors for the metropolitan government’s CFC program rather than the CSA the board members were appointed to serve.

The board minutes, documents maintained by the CSA, and observations while conducting the audit all reflect a prevalent mindset that the CSA and CFC function as interchangeable entities. The board is routinely updated on the activities of CFC that are not within the scope of the contractual relationship between the CSA and the metropolitan government. Some of this information includes CFC staff activities and training, changes in the CFC program organization, and CFC office renovation and relocation. The minutes also indicate that the board was very involved in the selection process for a new Executive Director—forming

a search committee, advertising for applicants, developing rating criteria, evaluating the resumes received, and conducting interviews. The board also unanimously approved a salary upgrade for the prospective Executive Director. The result was the hiring of an Executive Director for CFC—a metropolitan government employee. The duties and powers of the CSA board do not include hiring or compensating a metropolitan government employee. All of these activities would be appropriate for a board of directors responsible for CFC; none appear to be the responsibility of the CSA board.

Further distancing the Davidson County Metropolitan CSA from its identity as a Community Services Agency, the CSA has acted on board decisions without regard for the provisions of state law regarding Community Services Agencies. As discussed in finding 3, the CSA transferred \$273,615.96 to the Metropolitan Government of Nashville and Davidson County in violation of state statute requiring approval from the appropriate state authorities. Additionally, the CSA transferred \$9,715.07 to the metropolitan government on April 24, 2001, almost two months before the required approval was obtained on June 14, 2001.

With the contract in place with the metropolitan government to operate the CSA's programs, the business of the CSA would generally consist of monitoring the metropolitan government's performance to ensure compliance with the contract, and processing and recording financial transactions with both the metropolitan government and DCS. However, the CSA is not adequately performing or controlling these business functions. As discussed in finding 4, the CSA did not monitor its contract with the metropolitan government. In addition, as discussed in finding 2, the CSA has not established or maintained adequate business records. The CSA's board of directors cannot be assured that the CSA's assets are adequately protected and the CSA's financial transactions properly classified and correctly recorded without adequate control of its business functions.

The CSA made a \$208,174.00 adjustment to its financial statements for the year ended June 30, 2000, to recognize activity not previously recorded. This adjustment included \$146,161.00 for transactions from the years ended June 30, 1999, 1998, and 1997; and \$62,013.00 for transactions from the year ended June 30, 2000. It appears that although the metropolitan government presumably sent claim information to DCS on behalf of the CSA, the metropolitan government did not promptly "bill" or request reimbursement from the CSA for this activity, causing the error in the prior financial statements. The individual maintaining the financial information for the metropolitan government is the same individual maintaining the financial information for the CSA. Therefore, the failure to properly record these transactions in the appropriate fiscal year is peculiar.

Furthermore, the financial statements for the year ended June 30, 2001, that the CSA provided to the Tennessee Department of Finance and Administration in September 2001 for inclusion in the 2001 *Tennessee Comprehensive Annual Financial Report* (CAFR) were different from the statements provided to the auditors in February 2002. From the time the statements were prepared for the CAFR until fieldwork for the audit began, revenues and expenditures decreased \$84,163. The statements prepared for the CAFR did not accurately reflect the

agency's financial position at June 30, 2001. This difference was apparently caused by the CSA's failure to adequately enforce appropriate year-end cut-off.

Recommendation

There appears to be no need or requirement for the continuing operation of the Davidson County Metropolitan Community Services Agency. The primary functions of the Davidson County Metropolitan Community Services Agency have been provided by the Metropolitan Government of Nashville and Davidson County. State statutes do not prevent the Tennessee Department of Children's Services from contracting directly with the Metropolitan Government of Nashville and Davidson County for the provision of these services. Without the CSA as a party to the contract, the responsibilities of the metropolitan government and the state would be clearly defined. The efficiency of the billing and reimbursement process would be improved. Certain CSA expenses, including board member expenses and audit fees, would be eliminated. (Although the CSA board members are not directly compensated for their service to the CSA, there are costs associated with the functions of a CSA board of directors. These costs include the time, supplies, and postage associated with preparing, copying, and mailing meeting agendas, minutes, contracts, and other materials or documents to the board members.)

If the CSA continues to operate and contract with the metropolitan government for the provision of services, the CSA board of directors should either hire employees or contract with an organization independent of the metropolitan government to maintain adequate internal control over its activities and protect its interests in its contractual relationship with the metropolitan government. In order to ensure that funds are used properly and CSA goals are achieved, the CSA employees should routinely monitor both the fiscal and program performance of the metropolitan government for compliance with the contract. (See finding 4, "The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County.") Furthermore, the CSA board of directors should disengage from the administrative business of Caring for Children and limit its activity to CSA responsibilities.

Management's Comment

We concur. The Davidson County Community Services Agency (DCCSA) will take under consideration the options outlined in the respective recommendation. The DCCSA will take appropriate steps to ensure that the DCCSA is a distinct entity from the Nashville-Davidson County Metropolitan Government (Metro).

2. The CSA has not established or maintained adequate business records

Finding

The Davidson County Metropolitan Community Services Agency (CSA) did not establish or maintain adequate business records. The CSA does not have adequate accounting records including a general ledger, chart of accounts, or trial balance. The CSA accountant provided various worksheets to document certain aspects of the CSA's accounting activity. However, these worksheets were not maintained or organized in any way to ensure that all information was presented, and the information available did not always agree with the CSA's financial statements prepared by the accountant. In addition, the CSA could not readily provide copies of certain invoices; accounting reports; Local Government Investment Pool (LGIP) statements; or other official records such as minutes of board meetings, a listing of board members at year-end with mailing addresses and terms of office, or board member conflict-of-interest statements.

Rather than providing services directly, the CSA contracts with the Metropolitan Government of Nashville and Davidson County for the provision of services. Therefore, as the metropolitan government provides services, the CSA incurs a liability for payment to the metropolitan government. Typically, these obligations are recognized and recorded in the accounting records based on billings from the metropolitan government. The CSA can then bill the Tennessee Department of Children's Services (DCS) for reimbursement of its expenditures.

The CSA could not provide invoices from the metropolitan government to substantiate the expenditures reported on the CSA's financial statements. Furthermore, the CSA could not provide copies of most of the invoices the CSA submitted to DCS requesting reimbursement. The auditor had to contact DCS in order to obtain copies of the documents submitted by the CSA.

The bank statements for the CSA's LGIP account were not filed together for the fiscal year. The accountant collects the statements for the most recent year in a binder; as a new statement is added to the binder, an older statement is haphazardly discarded in the accountant's office. Although maintained, these statements are not systematically filed for future retrieval.

Section 37-5-313(b), *Tennessee Code Annotated*, states:

The community services agencies shall maintain all books and records in accordance with generally accepted accounting principals, and at no less than those recommended in the "Accounting Manual for Recipients of Grant Funds in Tennessee" published by the comptroller of the treasury. Such records shall be made available for inspection to the department and/or the comptroller of the treasury, upon request.

The *Accounting Manual for Recipients of Grant Funds in Tennessee*, page 1, states:

An accounting system should meet certain objectives that are essential for the collection, maintenance, and fair presentation of financial data. The objectives of this system are that

1. the financial data should be recorded in a systematic manner that will facilitate the preparation of financial reports;
2. the financial data should be recorded on a consistent basis;
3. the financial data should be adequately supported by documentation;
4. internal controls should be established 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 to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Furthermore, CSA management did not appropriately maintain its official records. The board meeting minutes were not organized, or filed together. And because the meeting minutes do not always refer to the prior meeting by date, we could not determine if all meeting minutes were actually provided. Minutes for certain meetings that the CSA Executive Director could not provide were obtained from other metropolitan government employees. The minutes were reviewed; however, the actions of the board in certain meetings were not always evident because the minutes lacked sufficient detail.

Additionally, CSA management could not provide a listing of board members at year-end with mailing addresses and terms of office, or all board member conflict-of-interest statements. Some board member conflict-of-interest statements were provided by other metropolitan government employees. However, conflict-of-interest statements for several board members, the interim Executive Director, and the current Executive Director were not provided.

Recommendation

The Davidson County Metropolitan Community Services Agency should establish and maintain adequate business records in accordance with state law. Essential accounting records include a general ledger, chart of accounts, and trial balance. In addition, the CSA should maintain and systematically organize copies of invoices; accounting reports; LGIP statements; and other official records such as minutes of board meetings, a listing of board members at year-end with mailing addresses and terms of office, and board member conflict-of-interest statements.

Management's Comment

We concur. The DCCSA will establish and maintain adequate business records as prescribed by state law.

- The CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute**

Finding

During the year ended June 30, 2001, the Davidson County Metropolitan Community Services Agency (CSA) transferred \$273,615.96 to the Metropolitan Government of Nashville and Davidson County, in violation of state statute. The transfer was not included in the Plan of Operation or subsequent amendments and was not approved by the appropriate state officials. Section 37-5-309, *Tennessee Code Annotated*, states:

The executive director, subject to approval of the board and approval of the plan of operation pursuant to Section 37-5-310, has the authority to . . . incur such expenses as may be necessary for proper discharge of the duties of the community services agency.

Section 37-5-310, *Tennessee Code Annotated*, describes the Plan of Operation and requires it to be approved by the Commissioner of the Tennessee Department of Children's Services, the Commissioner of the Tennessee Department of Finance and Administration, and Tennessee's Comptroller of the Treasury.

The transfer to the Metropolitan Government of Nashville and Davidson County was made from the CSA's fund balance. Fund balance represents amounts that accumulate when revenues exceed expenditures. The CSA's fund balance is available to fund expenditures if specified and approved in the CSA's budget. The budget is a required element of the CSA's Plan of Operation. Because this transfer was not approved in accordance with state statute, the financial statements have been adjusted to reflect a receivable from the metropolitan government for \$273,615.96.

Documentation available at the CSA indicates that \$64,146.98 was used to pay the Metropolitan Government of Nashville and Davidson County for program costs that exceeded the CSA's available grant funds in the prior fiscal year. This would appear to be an appropriate use of funds had the expenditure been approved as required.

The remaining \$209,468.98 was identified in CSA documents as a "donation" to the Metropolitan Government of Nashville and Davidson County. In the minutes of the March 13, 2001, CSA board of directors meeting, the board unanimously approved the transfer of these funds. However, in addition to the board's approval, the CSA must obtain the appropriate state approvals.

In addition, the use of the CSA's fund balance for a "donation" may not be consistent with state statute. Section 37-5-304, *Tennessee Code Annotated*, indicates that the community services agencies were established to "provide coordination of funds or programs designated for care of children and other citizens in the state." It would appear that making an unrestricted donation to the metropolitan government does not ensure that funds are spent as intended by the statute.

Recommendation

The Davidson County Metropolitan Community Services Agency should comply with all provisions of *Tennessee Code Annotated*. The CSA should only incur expenditures that have been included in a Plan of Operation budget and that have been approved by all of the appropriate state officials. The CSA should collect the funds inappropriately transferred to the metropolitan government. Furthermore, any such distribution of a CSA fund balance could be handled more appropriately with a contractual arrangement such as a grant from the CSA to the metropolitan government. The specific provisions regarding the recipient's use of the funds could be detailed in the contract. The CSA could then monitor the metropolitan government's use of the funds to ensure that the funds were appropriately expended for the "care of children and other citizens in the state."

Management's Comment

We do not concur. A plan will be submitted to the Tennessee Department of Children's Services for review and approval addressing the transfer of the \$273,615.96 to Metro. The plan will outline expenditures relating to the \$273,615.96 and future plans. This was simply a transfer of reimbursement and accrued interest on the money that was due to Metro.

In FY 2000, Metro made a donation to DCCSA of \$65,000. A change was made to the plan of operation to allow the contract agreement to be increased by the amount. Operational changes were made at the request of DCS to provide additional services to the children under its care. In FY 2001, the DCS regional office again asked for help from DCCSA to cover an increase in the cost of placement of custodial children in emergency placements. Metro made a donation to the DCCSA; in turn a change to the Plan of Operation allowed DCCSA to cover those additional costs on behalf of DCS.

These funds were restricted by metropolitan government in that they were deposited into the Caring for Children fund. These funds can only be used for purposes associated with the Caring for Children Program.

Auditor's Comment

The CSA's fund balance is available to fund expenditures if specified and approved in the CSA's budget. The budget is a required element of the CSA's Plan of Operation. Section 37-5-304, *Tennessee Code Annotated*, indicates that the community services agencies were established to "provide coordination of funds or programs designated for care of children and other citizens in the state." A Plan of Operation that includes the use of the CSA's fund balance for programs designated for the care of children and other citizens in the state, such as the expansion of an existing approved program, would appear to be an appropriate use of the CSA's fund balance.

The approved Plan of Operation (including Plan Changes #1 and #2) for the year ended June 30, 2000, did not include any expenditure of the CSA's fund balance. The approved Plan of Operation (including Plan Changes #1 and #2) for the year ended June 30, 2001, included the expenditure of \$10,000 of its fund balance in the Emergency Residential program. The CSA actually contributed \$9,715.07 of its fund balance to this program. Although the funds were transferred almost two months prior to the required approval (see finding 1), the \$9,715.05 contribution is not included in the \$273,615.96 discussed in this finding because the transfer was ultimately approved.

Until the CSA obtains the appropriate approval to expend its fund balance, the CSA cannot commit funds to the Metropolitan Government of Nashville and Davidson County. Therefore, any costs incurred by the metropolitan government prior to approval cannot be passed on to the CSA. In addition, the metropolitan government cannot bill the CSA for "accrued interest on the money that was due Metro."

4. The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County

Finding

The Davidson County Metropolitan Community Services Agency (CSA) has no employees. Instead, the CSA contracts with the Metropolitan Government of Nashville and Davidson County for the operation of its programs. However, since the CSA has no employees, the CSA has not monitored the metropolitan government's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract.

Normally, the Tennessee Department of Finance and Administration's Office of Program Accountability Review (PAR) would be responsible for monitoring the CSA to ensure that the CSA was in compliance with its contract with the Tennessee Department of Children's Services (DCS). Since the CSA subcontracts all of this activity to the Metropolitan Government of Nashville and Davidson County, PAR previously agreed to monitor the subrecipient on behalf of both DCS and the CSA. However, the last time that PAR conducted a monitoring visit with the Metropolitan Government of Nashville and Davidson County was December 1999. Per discussions with PAR and the Tennessee Department of Children's Services Internal Audit staff,

no monitoring has been done on behalf of the CSA since December 1999. If monitoring is not conducted by the state on behalf of the CSA, the CSA is responsible for monitoring its contract with the metropolitan government.

The *Accounting Manual for Recipients of Grant Funds in Tennessee*, page 40, requires monitoring of subcontractors “to ensure that weaknesses and noncompliance are promptly corrected.” Without adequate fiscal and program monitoring of the metropolitan government’s performance, the CSA cannot ensure that funds are used properly and that CSA goals are achieved.

Recommendation

The CSA board should hire employees to monitor its contract with the metropolitan government. Otherwise, the CSA should contract with an entity independent of the metropolitan government to monitor the contract with the metropolitan government. Both fiscal and program performance should be monitored each fiscal year.

Management’s Comment

We concur. The DCCSA will take under consideration monitoring options, including but not limited to utilizing the services of the Tennessee Department of Finance and Administration, Program Accountability Review Group or contracting for this service.

5. The CSA incurred expenses without an executed contract

Finding

The Davidson County Metropolitan Community Services Agency (CSA) allowed the Metropolitan Government of Nashville and Davidson County to provide services for more than nine months of the fiscal year ended June 30, 2001, before a properly approved and executed contract between the parties was in place. The CSA contracts with the metropolitan government for the operation of all of its programs. Since this relationship has been ongoing since the inception of the CSA, the need for the contract should have been anticipated well in advance of July 1, 2000, the beginning of the fiscal year. However, the chair of the CSA board of directors did not approve the contract until March 13, 2001, and the metropolitan government did not approve the contract until April 14, 2001. Not having an executed contract in place at the beginning of the fiscal year can lead to confusion between the parties regarding the scope of services, payment terms, and other conditions.

Recommendation

The Davidson County Metropolitan Community Services Agency should ensure that a fully executed contract is in place before the metropolitan government provides any services.

Management's Comment

We concur. The DCCSA will work to ensure that the contract between DCCSA and Metro is executed as expeditiously as possible.

6. The CSA did not submit its annual report in compliance with state law

Finding

The Davidson County Metropolitan Community Services Agency did not prepare and submit its annual report in compliance with state law. No report for the fiscal year ended June 30, 2001, has been issued. Section 37-5-312, *Tennessee Code Annotated*, states:

(a) Each board shall make an annual report to the governor and to the commissioner. (b) This report shall contain an accounting for all money received and expended, statistics on persons served during the year, recommendations and such other matters as the board deems pertinent.

Without timely reporting, the information in the annual report to the Governor and the Commissioner of the Tennessee Department of Children's Services concerning the agency's functions, management, and financial transactions during the preceding fiscal year loses its significance and becomes irrelevant in decision-making.

Recommendation

The Davidson County Metropolitan Community Services Agency should promptly issue an annual report to the Governor and the Commissioner of the Tennessee Department of Children's Services for each fiscal year, as required by state statute.

Management's Comment

We concur. The DCCSA will issue an annual report to the Governor and the Commissioner of the Tennessee Department of Children Services for the fiscal year.



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

Independent Auditor's Report

March 4, 2002

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

Dear Mr. Morgan:

We have audited the accompanying balance sheet of the Davidson County Metropolitan Community Services Agency, a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Davidson County Metropolitan Community Services Agency as of June 30, 2001, and June 30, 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
March 4, 2002
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2002, on our consideration of Davidson County Metropolitan Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a clear "H" and "Jr." at the end.

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

AAH/th

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY
BALANCE SHEET
JUNE 30, 2001, AND JUNE 30, 2000

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<u>Assets</u>		
Assets:		
Cash (Note 2)	\$ 40,447.93	\$ 2,642,671.41
Due from primary government (Note 3)	519,948.15	974,542.03
Due from Metropolitan Government of Nashville and Davidson County (Note 4)	<u>273,615.96</u>	<u>-</u>
Total assets	<u>\$ 834,012.04</u>	<u>\$ 3,617,213.44</u>
<u>Liabilities and fund balance</u>		
Liabilities:		
Due to Metropolitan Government of Nashville and Davidson County (Note 3)	\$ <u>555,559.07</u>	\$ <u>3,372,467.59</u>
Total liabilities	<u>555,559.07</u>	<u>3,372,467.59</u>
Fund balance:		
Unreserved (Note 3)	<u>278,452.97</u>	<u>244,745.85</u>
Total liabilities and fund balance	<u>\$ 834,012.04</u>	<u>\$ 3,617,213.44</u>

The Notes to the Financial Statements are an integral part of this statement.

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
<u>Revenues</u>		
State grants and contracts (Note 3)	\$ 3,226,637.15	\$ 3,043,147.33
Interest	43,422.19	70,145.74
Total revenues	<u>3,270,059.34</u>	<u>3,113,293.07</u>
<u>Expenditures</u>		
Contracts and awards (Note 3)	<u>3,236,352.22</u>	<u>3,043,147.33</u>
Total expenditures	<u>3,236,352.22</u>	<u>3,043,147.33</u>
Excess of revenues over expenditures	<u>33,707.12</u>	<u>70,145.74</u>
Fund balance, July 1	<u>244,745.85</u>	<u>174,600.11</u>
Fund balance, June 30	<u><u>\$ 278,452.97</u></u>	<u><u>\$ 244,745.85</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements
June 30, 2001, and June 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Davidson County Metropolitan Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget).

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Davidson County Metropolitan Community Services Agency are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children’s Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

NOTE 2. DEPOSITS

The Davidson County Metropolitan Community Services Agency has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 3. PRIOR-YEAR RESTATEMENT

During the year ended June 30, 2001, the agency recognized previously unrecorded prior-years' transactions totaling \$208,174 for activity performed by the Metropolitan Government of Nashville and Davidson County—\$62,013 of the activity was performed in the year ended June 30, 2000, and \$146,161 was performed prior to the year ended June 30, 2000. The agency is seeking reimbursement for this activity from the Department of Children's Services. Therefore, the balance due from the Department of Children's Services, the balance Due to Metropolitan Government of Nashville and Davidson County, State grants and contracts revenue, and Contracts and awards expenditures were understated at June 30, 2000. Because revenues and expenditures were affected equally, the agency's fund balance did not change. The amounts for the year ended June 30, 2000, were increased as noted below.

<u>Exhibit</u>	<u>Account</u>	<u>Amount of</u> <u>Increase</u>
Exhibit A	Due from primary government	\$208,174
Exhibit A	Due to Metropolitan Government of Nashville and Davidson County	\$208,174
Exhibit B	State grants and contracts revenue	\$62,013
Exhibit B	Contracts and awards expenditures	\$62,013

In addition, during the year ended June 30, 2000, the agency reported an expenditure for an amount billed by the Metropolitan Government of Nashville and Davidson County in excess of the agency's approved budget. Because expending funds without approval is a violation of state statute, this transaction should not have occurred. Therefore, the balance Due to Metropolitan Government of Nashville and Davidson County and Contracts and awards expenditures were overstated, and the agency's Unreserved fund balance was understated. The amounts for the year ended June 30, 2000, were increased or decreased as noted below.

**Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

<u>Exhibit</u>	<u>Account</u>	<u>Amount of Increase or (Decrease)</u>
Exhibit A	Due to Metropolitan Government of Nashville and Davidson County	(\$64,146.98)
Exhibit A	Unreserved fund balance	\$64,146.98
Exhibit B	Contracts and awards expenditures	(\$64,146.98)

**NOTE 4. VIOLATION OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISION—
FUNDS EXPENDED WITHOUT APPROVAL IN VIOLATION OF STATE STATUTE**

During the year ended June 30, 2001, the Davidson County Metropolitan Community Services Agency transferred \$273,615.96 to the Metropolitan Government of Nashville and Davidson County without the approval of the Commissioner of the Tennessee Department of Children’s Services, the Commissioner of the Tennessee Department of Finance and Administration, and Tennessee’s Comptroller of the Treasury, as required by Section 37-5-310, *Tennessee Code Annotated*. Expenditures relating to this transfer were recorded in the years ended June 30, 2001, and June 30, 2000. These expenditures were not included in the agency’s budget in its approved Plan of Operation for either year. Because expending funds without approval is a violation of state statute, the expenditures and subsequent transfers should not have occurred. Therefore, the agency has reduced expenditures and established a receivable from the Metropolitan Government of Nashville and Davidson County for the entire amount.

NOTE 5. DONATED FACILITIES

The Metropolitan Government of Nashville and Davidson County donates office space, utilities, telephone service, and copier and computer use to the Davidson County Metropolitan Community Services Agency. The value of the donation is not recorded in the financial statements.

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

NOTE 6. FIXED ASSETS

The CSA follows the Metropolitan Government of Nashville and Davidson County in the capitalization of fixed assets, setting the threshold at \$5,000. The CSA has no assets that qualify for capitalization.

NOTE 7. EMPLOYEE LEAVE OBLIGATION

The employees of the Caring for Children program are considered employees of the Metropolitan Government of Nashville and Davidson County. The liability for compensated absences for these employees is recognized in Metro's General Long-Term Debt account group. The CSA has no employees.

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This statement establishes new financial reporting requirements and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee will implement this statement, as required, for the year ending June 30, 2002. As a component unit of the state, the Davidson County Metropolitan Community Services Agency will also implement the statement for the year ending June 30, 2002. Management has not yet determined the full impact that GASB Statement 34 will have on the agency's financial statements.

APPENDIX

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY

Dr. Nancye Thomas, Interim Executive Director

BOARD OF DIRECTORS

Councilman Chris Ferrell, Chair
Ms. Carla Fenswick, Vice-Chair

Judge Betty Adams-Green
Ms. Gayle Barbee
Ms. Jeannette Birge
Councilman Chris Jenkins
Dr. Maria Frexes-Steed
Ms. Valerie Horton
Mr. Bart Perkey
Mr. Arthur Rebrovick, Jr.
Ms. Charita Upkins