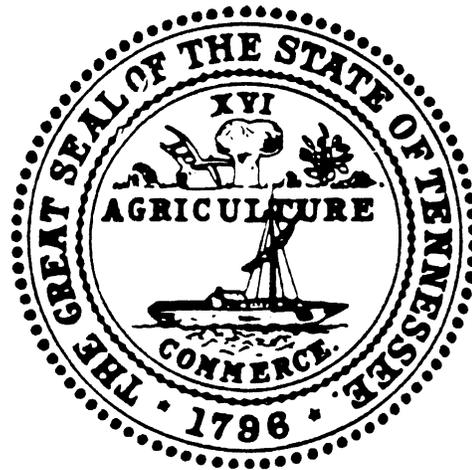


AUDIT REPORT

East Tennessee Community Services Agency

September 2005



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

Edward Burr, CPA
Assistant Director

Kandi Thomas, CPA, CFE
Audit Manager

Sam Alzoubi
In-Charge Auditor

Philip Mosley
Staff Auditor

Amy Brack
Editor

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

Financial/compliance audits of state departments and 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 website 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

September 29, 2005

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
East Tennessee Community Services Agency
P. O. Box 630
Clinton, Tennessee 37717-0630

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the East Tennessee Community Services Agency for the period July 1, 2003, through January 31, 2005.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/kbt
05/049



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

February 16, 2005

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

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the East Tennessee Community Services Agency for the period July 1, 2003, through January 31, 2005.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the East Tennessee Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the East Tennessee Community Services Agency 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. The agency's management has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the agency's internal control and instances of noncompliance to the East Tennessee Community Services Agency's management in a separate letter.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/kbt

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
East Tennessee Community Services Agency
September 2005

AUDIT SCOPE

We have audited the East Tennessee Community Services Agency for the period July 1, 2003, through January 31, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of cash, cash receipts, expenditures, and compliance with the Family Support Services, Family Crisis Intervention, and Independent Living Programs. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and approving the Community Services Agencies' Plans of Operation (budgets).

AUDIT FINDING

The Agency Did Not Comply With Case Management Policies and Procedures for Children and Families

The East Tennessee Community Services Agency has not complied with case management policies and procedures related to case file documentation and its contacts with children and families (page 5).

Financial and Compliance Audit East Tennessee Community Services Agency

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
PRIOR AUDIT FINDINGS	2
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	2
Cash and Cash Receipts	2
Expenditures and Program Compliance	3
Finding - The agency did not comply with case management policies and procedures for children and families	5
OBSERVATIONS AND COMMENTS	7
Fraud Considerations	7
Audit Committee	8
APPENDIX	10
Board of Directors	10

Financial and Compliance Audit East Tennessee Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the East Tennessee 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

The Community Services Agency Act of 1996 created 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 East Tennessee Community Services Agency serves the following counties: Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Loudon, Monroe, Morgan, Roane, Scott, Sevier, and Union. The agency’s administrative offices are in Clinton, Tennessee.

The governing body of the East Tennessee Community Services Agency is the board of directors. As of January 31, 2005, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

AUDIT SCOPE

We have audited the East Tennessee Community Services Agency for the period July 1, 2003, through January 31, 2005. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of cash, cash receipts, expenditures, and compliance with the Family Support Services, Family Crisis Intervention, and Independent Living Programs. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and approving the Community Services Agencies' Plans of Operation (budgets).

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CASH AND CASH RECEIPTS

The primary objectives of our review of cash and cash receipts were to determine whether

- the agency's controls over the cash receipting and revenue functions were adequate;
- receipts were posted correctly;
- the agency deposited funds in accordance with its policy;
- reconciliations between cash receipts and the deposit documents were performed; and
- bank statements were reconciled to the accounting records monthly.

To accomplish our objectives, we interviewed management to gain an understanding of the agency's procedures and controls for bank reconciliations and cash receipts. We obtained the cash receipts for July 1, 2003, through January 31, 2005, and tested a nonstatistical sample of cash receipts for proper posting, depositing, and reconciliation procedures. We also obtained

and reviewed all of the bank statements and supporting records for the audit period and verified the accuracy of the June 30, 2004, and December 31, 2004, bank reconciliations.

As a result of our inquiries, observations, and testwork, we found that the agency has adequate controls over the cash and cash receipting functions; complied with receipt posting, depositing, and reconciliation procedures; and performed timely bank reconciliations.

EXPENDITURES AND PROGRAM COMPLIANCE

Our primary objectives were to determine whether

- the agency's controls over expenditures and program compliance were adequate;
- the plan of operation and amendments were properly approved;
- expenditures for goods or services were properly approved, supported, and allowable;
- goods or services for which payments were made were received prior to payment;
- a vendor contract was in place when required and the agency made a public announcement of funds if necessary;
- the agency maintained adequate case files and performed required contacts with the children and families in the Family Support Services program;
- payments for services were properly approved, adequately supported, and allowable under the guidelines of the Family Support Services, Family Crisis Intervention, and Independent Living Programs;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- recently hired employees were qualified for their positions, their initial wages were properly calculated, and appropriate background checks were performed;
- final pay for terminated employees was properly calculated and the employees did not appear on the following payroll register; and
- the agency's policies and procedures for credit cards were adequate and purchases involving credit cards were appropriate.

To accomplish our objectives, we interviewed key agency personnel to gain an understanding of procedures and controls over expenditures and program compliance requirements, including payments to services providers. We also reviewed written policies and procedures. We obtained the plan of operation and related amendments to determine the appropriateness of approvals. We obtained the agency's check register and tested nonstatistical samples to determine if expenditures were approved, supported, and allowable under the applicable guidelines. We also reviewed sample transactions to determine if goods and services

were received prior to payment. In addition, we reviewed the check register and selected all single payments over \$5,000 and payments in the aggregate of \$25,000 or more to a single payee during one fiscal year to determine whether the payments were made under an approved contract and whether the agency made public announcements as necessary. We obtained a list of all children who received services for the audit period and tested a nonstatistical sample of children's case files to determine whether the expenditures made on behalf of these children were properly approved, supported, and allowable under program guidelines. In addition, we reviewed children's case files to determine whether case managers maintained the required case file documentation and made face-to-face contacts with the children and their families as required. We tested a nonstatistical sample of the travel claims reimbursements to determine whether claims were paid in accordance with travel regulations. We obtained personnel files of all recently hired employees to determine if employees were qualified for the positions held, that initial wages were properly calculated, and that appropriate background checks were performed prior to employment. For employees leaving CSA employment, we determined if the final pay was correct and that employees were removed from the payroll system. We reviewed policies and procedures for credit card purchases and tested a nonstatistical sample of the credit card transactions for appropriateness.

As a result of interviews and testwork performed, we determined that

- controls over expenditures were adequate;
- the plan of operation and related amendments were properly approved;
- without significant exceptions, expenditures for goods or services were properly approved, supported, and allowable;
- goods or services were received prior to payment;
- without significant exceptions, a vendor contract was in place when required and the agency made a public announcement of funds if necessary;
- payments for services were properly approved, adequately supported, and allowable under the guidelines of the Family Support Services, Family Crisis Intervention, and Independent Living Programs, in all material respects;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- recently hired employees were qualified for their positions, their initial wages were properly calculated, and appropriate background checks were performed;
- final pay for employees terminating employment was properly calculated and the employees did not appear on the following payroll register; and
- the agency's policies and procedures for credit cards were adequate, and purchases involving credit cards were appropriate.

However, we determined that the agency did not maintain adequate case files and did not comply with contact requirements for children in the Family Support Services program as noted in the finding below:

The agency did not comply with case management policies and procedures for children and families

Finding

The East Tennessee Community Services Agency (CSA) has not complied with case management policies and procedures related to case file documentation and its contact with children and families.

The Department of Children's Services has contracted with the CSA to obtain and provide services to and on behalf of non-custodial children and families who are at imminent risk of entering state custody or who have been in the state's custody and have returned to their families. The CSA is required by the Department of Children's Services (DCS) *Policy and Procedure Manual for Family Support Services*, Section VI.A, to maintain child-specific documentation in the DCS TNKIDS system and the ACCESS database. Section VI.C also requires the CSA to

maintain a hard copy file that gives information on services for each authorized child . . . Case recordings for each child and other pertinent documents pertaining to that child shall be maintained . . . The file will include at a minimum:

- Referral and Authorization form
- Purchased Services/Flex Fund Referral and Authorization forms
- Release of Information Form
- Information of TnCare Eligibility
- Family Support Services Family Assessment
- Service Plan
- Case Recordings
- Quarterly Reports on case progress
- Reports from other Service Providers
- De-authorization from Targeted Case Management form
- Any other documentation.

Our testwork consisted of a review of children's case files for documentation related to the payment of services obtained on behalf of the child and family and for compliance with programmatic requirements. We requested 20 children's case files to specifically determine that CSA staff maintained the required case files, that the files included case recordings, and that CSA staff made face-to-face contact with the child, family, or other individuals. The results are as follows:

- For 4 of the 20 children’s case management files requested for review (20%), management could not provide the case files when requested by the auditors. According to management, either one file was never maintained by the case manager or the case manager took the file when he left the CSA’s employment. Management also stated that the remaining 3 files were available and would be provided. Subsequent to fieldwork, management was able to provide 2 of the 3 remaining files for our review; however, the third file was never provided. Based on our review of other documentation (the children’s referral documentation and other supporting evidence), we believe these children were served by the CSA.
- For 18 children’s case files reviewed, we noted that the CSA case managers made the required contacts for 12 of the children tested; however, the CSA failed to make the required monthly face-to-face contacts for 6 children assigned to its care. For these 6 children, the CSA case managers were required to make 25 contacts; however, the CSA case managers failed to make 17 of those contacts (68%). Furthermore, case managers contacted 4 of these 6 children only once, at the initial home visit.

The Department of Children’s Services *Policy and Procedure Manual for Family Support Services*, Section V., Service Delivery, page 14, states,

The Family Support case manager must conduct a minimum of one face-to-face contact per week with the family for the first 4 weeks and a minimum of one face-to-face contact per month for the remainder of the service delivery phase.

Based on discussion with management concerning the face-to-face contact with children and families, management indicated that the caseload of the CSA’s case managers is very high. In some instances, a case manager may have 50 to 60 active cases. Therefore, according to management, it is very difficult to make face-to-face contact with the children and their families every month.

The Department of Children’s Services *Policy and Procedure Manual for Family Support Services* addresses high case loads and states,

If Family Support Services case loads become high and the program is unable to effectively meet the needs of all the children and families referred, then the CSA Executive Director and the [Department of Children’s Services] Regional Administrator will jointly decide how to set priorities for service delivery and ways to manage the workload.

The Executive Director indicated that he does meet with the Regional Administrator to discuss case load issues at the CSA board meetings. We reviewed the CSA board’s minutes to determine what actions would be taken to set priorities for service delivery and to manage the workload. However, there was no documentation of any decisions made to address service delivery or current workloads. Furthermore, critical contact requirements are still not being met.

During the audit fieldwork, the CSA's Executive Director acknowledged the inadequate controls over face-to-face contacts and indicated that case managers have been instructed to ensure that all face-to-face contacts with children, their families, and other individuals are made monthly and documented according to the Department of Children's Services' policies and procedures.

Recommendation

For as long as the CSA continues to administer these programs on behalf of DCS, the Executive Director in coordination with the Director of Children's Services and team leaders should ensure that case managers properly maintain case files for all children and make face-to-face contact with the children at least monthly as required by Department of Children's Services policies and procedures. DCS plans to assume these duties in the future by hiring CSA employees. Employees transferring to DCS should ensure that appropriate contacts are made with the children and family members.

Management's Comment

We concur with the finding. The weakness noted by this finding was addressed by the agency in its Revenue Maximization and Expenditure Reduction Plan presented to the Tennessee Department of Children's Services on October 26, 2004. The most significant procedure implemented by the agency was the monthly review and follow-up of individual case manager face-to-face contacts detailed in a zero-contact report provided by the Department of Children's Services TNKIDS Information System. The agency determined 90% positive contact to be a reasonable performance objective for its case managers and the agency's overall performance has since trended significantly toward that objective.

OBSERVATIONS AND COMMENTS

FRAUD CONSIDERATIONS

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

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

AUDIT COMMITTEE

In the previous audit report we recommended that East Tennessee Community Services Agency establish an audit committee. The chairman of the board of directors of the CSA appointed a three-member audit committee on January 13, 2005. However, as of the end of our audit, the audit committee was not fully functional and had no charter.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller of the Treasury's office as well as a process for immediately reporting such information.

6. Immediately inform the Comptroller's Office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies, and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

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

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

APPENDIX

EAST TENNESSEE COMMUNITY SERVICES AGENCY

Mike Harkleroad, Executive Director

BOARD OF DIRECTORS

Executive Committee Members

Mr. Eddie Davis, Chair
Mr. John Galloway, Vice-Chair *
Ms. Sherrie Claiborne, Treasurer
Mr. David Lietzke, Secretary
Mr. Kirk Lane, DCS Commissioner's Designee

Personnel Committee Members

Mr. Robert Webb, Chair
Ms. Paula Rugel, Vice Chair
Ms. Sherrie Claiborne

Children's Services and Community Services Program Committee

Ms. Ann Richardson, Chair
Ms. Flo Charles, Vice Chair
Mr. Rick Thomas
Ms. Anne Phillips

Plan of Operation and Finance Committee

Mr. John Galloway, Chair *
Mr. James Gaddis, Vice Chair
Ms. Nancy Rader

Audit Committee

Mr. James Gaddis, Chair
Ms. Sherrie Claiborne, Vice Chair
Mr. John Galloway *

* This board member passed away after the end of fieldwork.