

# AUDIT REPORT

Mid-Cumberland Community Services Agency

May 2006



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

May 30, 2006

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Mid-Cumberland Community Services Agency  
531 Metroplex Drive  
Nashville, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland Community Services Agency for the period July 1, 2003, through April 30, 2005.

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

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan  
Comptroller of the Treasury

JGM/eb  
05/066



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
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May 20, 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 Mid-Cumberland Community Services Agency for the period July 1, 2003, through April 30, 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 Mid-Cumberland Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Mid-Cumberland 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 certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The agency's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

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

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/eb

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Mid-Cumberland Community Services Agency**  
May 2006

## AUDIT SCOPE

We have audited the Mid-Cumberland Community Services Agency for the period July 1, 2003, through April 30, 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 payroll and personnel, cash and revenue, and expenditures and program compliance. 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 FINDINGS

### **Once Again, Criminal Background Checks Were Not Always Completed Before Employees Worked Alone With Children, Increasing the Risk of Inappropriate Contact With Children\***

The agency failed to complete a criminal background check for 10 of 15 applicable employees hired during the audit period before the employees were allowed to work alone with children. When employees are allowed to work alone with children before the results of background checks have been received, there is a chance a person convicted of a child-related abuse offense could have unsupervised contact with children (page 3).

### **Documents Were Not Always Properly Prepared, Submitted, or Reviewed and Approved in Accordance With Agency Policies, Increasing the Risk of an Improper or Incorrect Disbursement, Reconciliation, or Journal Entry**

The Executive Director did not approve five bank reconciliations, all journal entries for the audit period, and administrative leave with pay for three employees. Also, six of the Executive Director's travel claims for the audit period were not reviewed by the Fiscal Services Director or another employee. In addition, the Executive Director did not submit the required leave request forms for

178.5 hours of leave used during the audit period. Other Executive Director leave request forms were not properly approved or completed. These problems appear to be the result of the agency's directors and supporting staff neglecting to forward documentation to another individual for approval (page 8).

**Mid-Cumberland Community Services Agency Did Not Provide All the Services Required by Its Purchase Agreement With the Davidson County Metropolitan Community Services Agency, Increasing the Risk That Funds Were Not Properly Used**  
The Mid-Cumberland Community Services Agency Director of Fiscal Services did not

adequately perform five of the 11 services outlined in the purchase agreement with the Davidson County Metropolitan Community Services Agency. In addition, although the purchase agreement ended on June 30, 2004, the agencies continued to operate under the agreement during fiscal year ended June 30, 2005 (page 10).

\* This finding is repeated from the prior audit.

# Financial and Compliance Audit Mid-Cumberland Community Services Agency

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# **Financial and Compliance Audit Mid-Cumberland Community Services Agency**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Mid-Cumberland 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 Mid-Cumberland Community Services Agency serves the following counties: Cheatham, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices are in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency is the board of directors. As of April 30, 2005, the board was composed of ten 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.

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## **AUDIT SCOPE**

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We have audited the Mid-Cumberland Community Services Agency for the period July 1, 2003, through April 30, 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 payroll and personnel, cash and revenue, and expenditures and program compliance. 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).

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## **PRIOR AUDIT FINDINGS**

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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 Mid-Cumberland Community Services Agency filed its report with the Department of Audit on February 24, 2005. A follow-up of all prior audit findings was conducted as part of the current audit.

### **RESOLVED AUDIT FINDING**

The current audit disclosed that the Mid-Cumberland Community Services Agency has corrected the previous audit finding concerning the accurate preparation of the financial statements.

### **REPEATED AUDIT FINDING**

The prior audit report also contained a finding concerning the failure to perform criminal background checks for certain employees. This finding has not been resolved and is repeated in the applicable section of this report.

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

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### **PAYROLL AND PERSONNEL**

Our objectives for payroll and personnel were to determine whether the agency's controls and procedures over payroll and personnel are proper and being followed, newly hired employees

are qualified for their positions and their initial wage and amount paid were properly calculated, and background checks are performed as required for newly hired employees.

We interviewed key agency personnel and reviewed supporting documentation to determine if the agency's controls and procedures over payroll and personnel were proper and being followed. The supporting documentation reviewed included time sheets, leave request forms, overtime authorization forms, and attendance sheets for the agency's case managers. We also tested a nonstatistical sample of newly hired employees during the audit period to determine if the employees were qualified, their initial wage and amount paid was properly calculated, and the required background checks were performed.

Based on our interviews and reviews of supporting documentation, we determined that controls and procedures regarding payroll and personnel were adequate. However, based on the supporting documentation reviewed, the agency is not always following required procedures. Problems noted with the Executive Director's leave and attendance records along with the failure to approve leave when required are included in finding 2 on page 8 in the Expenditures and Program Compliance section of the audit report. Based on the testwork performed on the newly hired employees, we determined that employees were qualified for their positions and their initial wage and amount paid were properly calculated. However, the required background checks were not always completed when required for newly hired case managers as noted in finding 1 below.

1. **Once again, criminal background checks were not always completed before employees worked alone with children, increasing the risk of inappropriate contact with children**

**Finding**

The prior audit report noted that 4 of 18 newly hired employees that required criminal background checks did not get them before they began working with children. The current audit found that the situation was even worse; 10 of 15 employees requiring criminal background checks did not get them before they began working with children. However, the agency did issue a new policy at the end of the audit period that requires that employees not have unsupervised contact with clients until the results of a criminal background check have been received. Because this new policy was not effective until the end of the audit period, compliance with the policy has not been tested. Also, the agency no longer served children on behalf of the Department of Children's Services as of December 1, 2005.

As stated above, the Mid-Cumberland Community Services Agency allowed 10 of 15 applicable newly hired employees to work alone with children before the required criminal background check was completed. The employees were hired during the period July 1, 2003, through January 31, 2005. At the time of the audit testwork in March 2005, the background checks had still not been received for these 10 employees. Three employees had been working alone with children for over nine months without the criminal background check being

completed. At the time of the audit testwork, the agency was not performing any other background checks for these employees.

Section 37-5-511, *Tennessee Code Annotated*, requires the Department of Children's Services (DCS) to obtain criminal violation information for employees or volunteers having access to children including the submission of fingerprint samples to the Tennessee Bureau of Investigation. Furthermore, the Brian A. Settlement Agreement also requires that all persons applying for department or contract agency positions that involve contact with children must submit to a criminal records check and child abuse registry screening process before beginning training or employment. A Community Services Agency (CSA) is subject to these requirements according to Chapter 0250-7-6(3)(b) of the *Department of Children's Services Rules and Regulations*, which states, "CSA employees are required to comply with established DCS policies, procedures, standards and legal advice in providing services to families and children pursuant to contracts with DCS."

The agency submits the background check request to DCS. Once DCS has cleared the employee, the employee is scheduled for fingerprints. However, for at least five of the ten employees, their names were not submitted to DCS until they had already been employed with the agency for a month. In addition, DCS has not always cleared the employees for fingerprinting in a timely manner. When employees are allowed to work alone with children before the results of the background checks have been received, there is a chance a person convicted of a child-related abuse offense could have unsupervised contact with children. The possibility that children could be endangered contradicts the agency's mission to protect them. In addition, child safety is a sensitive area where even one incident could subject children to abuse and adversely affect the agency's credibility with the public.

Late in the audit engagement, the agency started using a private investigation company to perform an abuse/sexual predator registry search and social security number verification check. The agency stated that it would continue to coordinate with DCS to have the required Tennessee Bureau of Investigation criminal fingerprint background checks completed. The agency's new administrative directive entitled "Fingerprint Background Checks" dated March 31, 2005, requires that employees will not have unsupervised contact with clients until the results of a background check have been received. The Human Resource Director was responsible for ensuring the background checks were received. The DCS Program Director was advised of the results when the completed background checks were obtained.

### **Recommendation**

The CSA no longer administered these case management services on behalf of DCS as of December 1, 2005. The Department of Children's Services hired many of the CSA employees to assume the duties of administering these programs. DCS management should ensure that the appropriate background checks have been performed on transferring case managers to mitigate the risk of case managers having inappropriate contact with children. Top management should assign specific responsibility to staff independent of the background check procedure to ensure

checks are made timely. The assignment and the process of oversight should be fully documented. The written policy should provide that any violations of the policy should be immediately reported to top management. New personnel hired by DCS to administer these programs should not be assigned to duties in which they have contact with children until management has received and evaluated the fingerprint results.

### **Management's Comment**

We concur: Because the time required for getting background checks processed usually took from three to four months and due to extremely high caseloads for existing case managers, new staff was assigned cases to work alone before the background checks were completed. All background checks are now completed and findings documented prior to a case manager being allowed to work with clients alone. Mid-Cumberland Community Services Agency no longer administers this contract on behalf of DCS.

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### **CASH AND REVENUE**

Our objectives for cash and revenue were to determine whether the agency's controls ensure that transactions are properly supported, funds are properly controlled and deposited intact, cash receipting functions are adequately segregated, bank reconciliations are properly completed on all accounts, expenditures from the agency's petty cash funds are proper, and all adjusting journal entries are appropriate.

To accomplish our objectives, we interviewed key agency personnel and reviewed supporting documentation to gain an understanding of the agency's procedures and controls over cash and revenues. We reviewed all bank and LGIP reconciliations completed during the months of July 2003 through December 2004 for proper approval and timeliness of completion. We also tested two bank and LGIP reconciliations by agreeing all amounts to support. We tested all petty cash expenditures for the agency's Murfreesboro regional office for adherence to agency policies. In addition, surprise counts were performed for two of the agency's petty cash funds. Furthermore, we reviewed all journal entries for the fiscal year ending June 30, 2004. Journal entries are used to make adjustments to the accounting records including revenue accounts during the preparation of the agency's financial statements.

Based on our interviews and reviews of supporting documentation, we determined that the agency's controls over cash and revenue were adequate. Based on our testwork, we determined that petty cash expenditures were proper and bank reconciliations agreed to support. However, certain bank reconciliations were not completed in a timely manner and the Executive Director did not properly approve five bank reconciliations. See finding 2 on page 8. Although adjusting journal entries appeared to be appropriate, the Fiscal Services Director did not sign any of the journal entries prepared during the audit period and the Executive Director did not approve these journal entries. See finding 2 on page 8 in the Expenditures and Program Compliance section of the audit report.

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## EXPENDITURES AND PROGRAM COMPLIANCE

The primary objectives of our review of expenditures and program compliance 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 were received prior to payment;
- agency equipment was adequately insured and acquisitions were properly recorded on the agency's permanent property listing;
- a vendor contract was in place when required and the agency made a public announcement of funds if necessary;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- expenditures in the Transitional Living Services program were allowable according to the applicable guidelines and were made on behalf of an eligible youth;
- the agency maintained complete case files and performed required contacts with the children and families in the Family Support Services and Family Crisis Intervention Programs; and
- the agency's 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 service providers. We also reviewed written policies and procedures. We obtained the plan of operation and related amendments and determined the appropriateness of approvals. We obtained and reviewed the agency's check register and tested a nonstatistical sample of transactions from July 1, 2003, through January 31, 2005, to determine that expenditures were approved, supported, and allowable under the applicable guidelines, and that the goods and services were received prior to payment. We reviewed equipment acquired during the audit period, physically located the items, and verified that they were correctly added to the permanent property listing. We also reviewed insurance policies to determine if insurance coverage was adequate.

We reviewed the check register for the period July 1, 2003, through January 31, 2005, and selected all single payments of \$5,000 or above, and all combined payments to a single vendor totaling \$20,000 or above, to determine whether a vendor contract was in place when required and the agency made a public announcement of funds if necessary. We tested a nonstatistical sample of the travel claims reimbursements from July 1, 2003, through January 31,

2005, to determine whether claims were paid in accordance with travel regulations. We also tested all of the Executive Director's travel claims from July 1, 2003, through February 28, 2005.

We obtained a list of all children who received services from July 1, 2003, through February 28, 2005, and tested a nonstatistical sample of children's case files to determine whether expenditures in the Transitional Living Services program were allowable according to the applicable guidelines and were made on behalf of an eligible youth. 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 reviewed procedures for credit card purchases and reviewed randomly selected credit card transactions for appropriateness.

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

- controls over expenditures and program compliance were adequate except for travel claims, journal entries, and a purchase agreement with Davidson County Metropolitan Community Services Agency as stated in findings 2 and 3;
- the plan of operation and related amendments were properly approved;
- expenditures for goods or services were supported and allowable;
- goods or services were received prior to payment;
- agency equipment was adequately insured and acquisitions were properly recorded on the agency's permanent property listing;
- a vendor contract was in place when required and the agency made a public announcement of funds if necessary;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- expenditures in the Transitional Living Services program were allowable according to the applicable guidelines and were made on behalf of an eligible youth;
- the agency maintained complete case files and performed required contacts with the children and families in the Family Support Services and Family Crisis Intervention Programs; and
- the agency's procedures for credit cards were adequate, and purchases involving credit cards were appropriate.

However, we determined that documents were not always properly prepared, submitted, or approved in accordance with agency policies as noted in finding 2. In addition, as noted in finding 3, the agency did not provide all the services required by its purchase agreement with the Davidson County Metropolitan Community Services Agency.

2. **Documents were not always properly prepared, submitted, or reviewed and approved in accordance with agency policies, increasing the risk of an improper or incorrect disbursement, reconciliation, or journal entry**

**Finding**

The Executive Director and Fiscal Services Director of the Mid-Cumberland Community Services Agency did not always properly prepare, submit, or review and approve documents as required by agency policies. The following problems were noted.

- Six of 16 Executive Director travel claims tested (38%) were not properly approved. The agency's administrative directive entitled "Approval of Travel Claims" requires a supervisor's signature approving all travel claims. The Fiscal Services Director has been designated as the approver for the Executive Director's travel claims. The total amount paid for these six travel claims was \$664.47. For one claim, a hotel was paid \$179.96 in advance by check. However, the Executive Director was also reimbursed for the hotel expense. The hotel expense was improperly included on the Executive Director's travel claim by an administrative assistant. If the travel claim had been reviewed and approved, this duplicate payment might have been avoided. The agency recovered the funds for the duplicate payment.
- The Executive Director failed to approve a travel claim for an employee under her supervision. As noted above, a supervisor's signature is required for all travel claims.
- Five of 18 bank reconciliations tested (28%) were not reviewed and approved by the Executive Director. The agency's internal operations policy entitled "Custodian of Accounts and Account Reconciliations" states that "upon completion of the reconciliation of the accounts, the Executive Director and the person performing the reconciliation will both sign and date the reconciliation." The policy also requires the bank reconciliations to be completed in a timely manner. However, four of these unapproved bank reconciliations had not been completed by the end of the following month. One bank reconciliation was not completed for 132 days after the bank statement date. Seven other bank reconciliations in the period tested were properly approved but were not completed by the close of the following month.
- None of the journal entries for the fiscal year ending June 30, 2004, were approved by the Executive Director. In addition, the journal entries were not signed by the Fiscal Services Director as preparer. Journal entries are created during the financial statement preparation process to adjust the accounting records. The Fiscal Services Director stated that he failed to submit the journal entries to the Executive Director for approval. The journal entries were reviewed, and no problems were noted. The agency does not have an internal operations policy relating to journal entries.
- The Executive Director did not approve paid leave for the employee's birthday for 3 of 11 employees tested (27%). The agency allows staff to utilize administrative leave with pay for their birthday. However, the agency's administrative directive entitled

“Administrative Leave for Birthday” requires the Executive Director to sign the request for leave form before the employee’s salary is paid.

- Leave and attendance records were not properly prepared for the Executive Director. All of the leave and attendance records for the Executive Director were reviewed for the audit period. The required leave request forms were not present for 178.5 hours of leave taken; leave request forms were not properly approved by the Fiscal Services Director for another 22.5 hours of leave taken; and leave request forms were incomplete for an additional 45 hours of leave taken. The incomplete leave request forms were not signed by the Executive Director or the leave request form did not indicate the date the leave was taken. The agency’s Personnel Policies require the completion of employee leave request forms. The Fiscal Services Director is the designated approver of the Executive Director’s leave and attendance records.

Travel claims are approved to ensure the reimbursement for travel is appropriate. Approval of bank reconciliations by the Executive Director is necessary to ensure that they are properly completed in a timely manner. Bank reconciliations need to be completed in a timely manner to ensure any bank errors can be corrected and the agency’s accounting records are accurate. The Fiscal Services Director prepares and records journal entries in the accounting records and prepares the financial statements. A review of journal entries by the Executive Director is needed to provide oversight over the Fiscal Services Director and the financial statement preparation process. Leave forms are necessary to ensure that leave used and paid for personnel is allowable under the agency’s policies. When these required documents are not properly completed and approved, risk of an improper disbursement, reconciliation, or journal entry increases. Based on discussions with management and observation, these problems appear to be the result of the agency’s directors and supporting staff failing to follow proper procedures by neglecting to forward documentation to the appropriate supervisor for approval.

### **Recommendation**

The Fiscal Services Director should ensure that all travel claims are properly approved before processing for payment. Although the Fiscal Services Director is currently designated to review the Executive Director’s travel claims, the agency’s board of directors should consider requiring that a board member review these travel claims to strengthen controls. The Fiscal Services Director should ensure that all bank reconciliations and journal entries are submitted to the Executive Director for approval after completion. The Executive Director should ensure that bank reconciliations are completed in a timely manner. The Executive Director should establish regular intervals when these documents should be submitted for approval and follow up with the Fiscal Services Director if the documents are not submitted. The agency’s board of directors should establish an Internal Operations Policy for journal entries and forward it to the agency’s board of directors for approval. Supervisors should ensure that forms for administrative leave with pay are submitted to the Executive Director’s office for approval. The fiscal services office should not pay employees until the proper approval is obtained. In addition, the Executive Director should properly prepare all required leave request forms and ensure that the forms are approved. The agency’s board of directors and the Executive Director should ensure all these

required approvals and corresponding controls are spelled out in written policies and procedures with clear guidelines.

### **Management's Comment**

We concur: The agency has hired a financial consultant to put in place the appropriate internal controls to ensure that in the future all agency documents are properly prepared, timely submitted, and reviewed and approved by the appropriate staff.

3. **Mid-Cumberland Community Services Agency did not provide all the services required by its purchase agreement with the Davidson County Metropolitan Community Services Agency, increasing the risk that funds were not properly used**

### **Finding**

The board of the Davidson County Metropolitan Community Services Agency (CSA) entered into a purchase agreement with the Mid-Cumberland CSA to receive certain administrative and fiscal services. Davidson County Metropolitan CSA also had an agreement with the Metropolitan Government of Nashville and Davidson County (Metro) for the operation of its Caring for Children program. Prior to the Davidson County Metropolitan CSA ceasing operations on June 30, 2005, the CSA in fact had no employees. As a result, the board of the Davidson County Metropolitan CSA needed the agreement with Mid-Cumberland CSA to assist in managing its administrative and fiscal affairs. The purchase agreement between Davidson County Metropolitan CSA and Mid-Cumberland CSA stated that the Mid-Cumberland CSA Director of Fiscal Services would become the acting Director of Fiscal Services for Davidson County Metropolitan CSA. The agreement was approved by the board chairs of each agency. However, Mid-Cumberland CSA did not provide all of the services required by the purchase agreement. Also, although the purchase agreement between Davidson County Metropolitan CSA and Mid-Cumberland CSA ended on June 30, 2004, the two agencies continued to operate as if the same purchase agreement was in place for the fiscal year ended June 30, 2005. As a result, the two agencies were operating under an expired agreement.

The Mid-Cumberland CSA Director of Fiscal Services did not adequately perform 5 of the 11 services outlined in the Scope of Services section of the agreement.

- The agreement required the Mid-Cumberland CSA Director of Fiscal Services to periodically (at least once a year) conduct a physical examination of the financial and service records of Metro. This examination was to substantiate the invoices submitted by Metro for payment for the Caring for Children Program. Metro billed Davidson County Metropolitan CSA for \$5,421,295 for fiscal year ended June 30, 2004, and for \$5,016,302 for fiscal year ended June 30, 2005. The Metro invoices did not contain the details needed to determine that Metro had incurred expenditures in the amount requested for reimbursement. However, no physical examination was

performed for either fiscal year ended June 30, 2004, or June 30, 2005. As a result, there is no assurance that the payments made to Metro were proper.

- Also, Metro requested and was reimbursed in excess of the administration limit in the agreement between Davidson County Metropolitan CSA and Metro for the fiscal years ended June 30, 2004, and June 30, 2005. Although the administration agreement limit was \$134,312, Metro was paid \$158,311 for the fiscal year ended June 30, 2004, and \$188,401 for the fiscal year ended June 30, 2005. Amendments to Davidson County Metropolitan CSA and Metro's agreement for the additional administrative costs reimbursed had not been completed. Mid-Cumberland CSA was responsible for evaluating these invoices from Metro before payment.
- The contract required the Mid-Cumberland CSA Director of Fiscal Services to prepare and execute, upon the approval of the Acting Executive Director, requests for the deposit of funds by the Tennessee Department of Children's Services (DCS) into the Davidson County Metropolitan CSA Local Government Investment Pool (LGIP) account in accordance with the provisions of the Plan of Operation and contract with DCS. Instead, Metro submitted the invoices or requests for deposit of funds to DCS. DCS would then transfer funds to the Davidson County Metropolitan CSA LGIP account. Next, the Mid-Cumberland CSA Director of Fiscal Services would submit a request to the State Treasurer upon receiving the DCS remittance advice for the transfer in order to transfer the funds to Metro.
- In addition, the contract required the Mid-Cumberland CSA Director of Fiscal Services to balance the checking account of Davidson County Metropolitan CSA on a monthly basis and submit a monthly report of the account to the Davidson County Metropolitan CSA Board Chair and Acting Executive Director. However, the checking account was not reconciled by Mid-Cumberland CSA personnel or any other party. We prepared a reconciliation on the checking account at June 30, 2005. No problems were noted.
- Finally, the agreement required the Mid-Cumberland CSA Director of Fiscal Services to maintain the official files of Davidson County Metropolitan CSA in regard to all financial transactions. However, all documentation for the Davidson County Metropolitan CSA debit card and checking account purchases was maintained by the Davidson County Metropolitan CSA Board Chair.

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."

Metro was paid over \$10,000,000 by the Department of Children Services for the period of July 1, 2003, through June 30, 2005, to provide services under its Caring for Children program. Since the required monitoring was not performed by Mid-Cumberland CSA, there is no assurance that the Department of Children's Services was not overbilled. There is also no assurance that funds were spent providing the necessary services to children instead of being spent on other Metro programs or misappropriated. The Mid-Cumberland CSA's failure to meet

its obligations under its agreement with the Davidson County Metropolitan CSA greatly increases the risk this \$10,000,000 was not properly used.

### **Recommendation**

The board of the Davidson County Metropolitan CSA voted to cease operations as of June 30, 2005. As a result, Mid-Cumberland CSA is no longer performing the services outlined in the agreement. However, the Mid-Cumberland CSA board and Executive Director should fulfill their fiduciary obligation under the agreement by ensuring that Mid-Cumberland CSA conducts the physical examination of the financial and service records of Metro to substantiate the invoices presented by Metro to Davidson County Metropolitan CSA for payment. This review was required by the purchase agreement between the CSAs and should be performed for the period of the agreement. A similar finding has been included in the Davidson County Metropolitan CSA audit report for the period of July 1, 2003, through June 30, 2005.

The Mid-Cumberland CSA board and Executive Director should ensure that expired contracts and agreements have been properly renewed before services are continued. In addition, the Mid-Cumberland CSA board and Executive Director should also ensure that obligations under all current and future contracts and agreements with other parties are fulfilled.

### **Management's Comment**

We concur: Mid-Cumberland CSA will fulfill its fiduciary obligation under the agreement and conduct the physical examination of the financial and service records of Metro to substantiate the invoices presented by Metro to Davidson County Metropolitan CSA for payment.

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## **OBSERVATIONS AND COMMENTS**

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

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

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the agency. Although auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

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

## **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 the Mid-Cumberland Community Services Agency establish an audit committee. The board of directors of the CSA appointed a four-member committee, and the audit committee first met on July 6, 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.

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**APPENDIX**

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**Mid-Cumberland Community Services Agency  
as of April 30, 2005**

Beverly Bass, Executive Director

**BOARD OF DIRECTORS**

Executive Committee Members

Luther Bratton, Jr., Chair  
Julie Mills, Vice Chair  
Bettye McKinnon, Treasurer  
Mary Elaine Horne, Secretary  
Barbara Swader, At-Large

Other Members of the Board of Directors

Martha Brooke Perry  
Bettie Woodard  
Frank Mix  
David Asbury  
Judy White

Audit Committee

Julie Mills, Chair  
Bettye McKinnon  
Martha Brooke Perry  
Luther Bratton, Jr., Ex-Officio