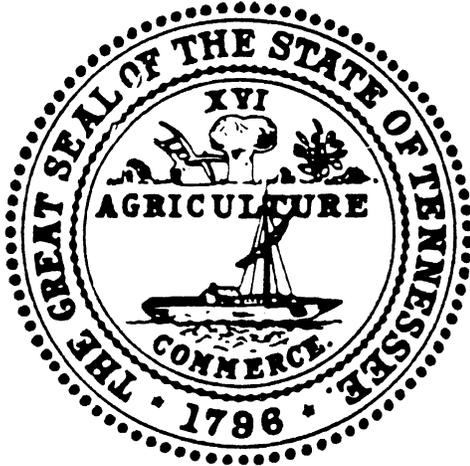


AUDIT REPORT

Knox County Community Services Agency

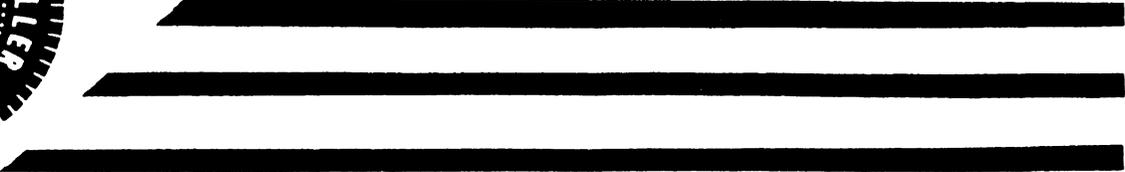
January 2006



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
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John G. Morgan
Comptroller

January 17, 2006

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Board of Directors
Knox County Community Services Agency
413 Northshore Dr. SW, Suite E
Knoxville, Tennessee 37919

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Knox County Community Services Agency for the period July 1, 2003, through June 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/kbt
05/067



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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July 26, 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 Knox County Community Services Agency for the period July 1, 2003, through June 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 Knox County Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Knox County 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 management has responded to the audit findings; we have included the responses following each finding.

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

Sincerely,

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
Knox County Community Services Agency
January 2006

AUDIT SCOPE

We have audited the Knox County Community Services Agency for the period July 1, 2003, through June 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 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 FINDINGS

The Agency Did Not Enter Into Contracts With Service Providers As Required**

As noted in the prior two audit reports, the Knox County Community Services Agency (CSA) did not enter into contracts with service providers as required (page 5).

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

The Knox County CSA did not comply with case management policies and procedures related to case file documentation and its contacts with children and families (page 6).

The Agency Did Not Have Adequate Controls for Payments to Service Providers

The Knox County CSA failed to establish adequate internal controls in its review and payment of invoices to service providers, which resulted in unauthorized, unsupported, or unallowable expenditures (page 9).

The Membership of the CSA Board of Directors Violates State Law*

As noted in the prior year's audit, the Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the CSA service area, continued to serve on the board

of directors of the Knox County CSA in violation of state law. The DCS Regional Administrator was not appointed to the board by the Governor but continued to vote on CSA business (page 12).

*This finding is repeated from the prior audit.
**This finding is repeated from prior audits.

Financial and Compliance Audit Knox County Community Services Agency

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Financial and Compliance Audit Knox County Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Knox County 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 Knox County Community Services Agency ceased operations on August 1, 2005. Prior to that date the Knox County Community Services Agency administrative offices were in Knoxville, Tennessee. The governing body of the Knox County Community Services Agency was the board of directors. As of June 30, 2005, the board was composed of 12 members. (See Appendix.) An executive committee, consisting of five board members, had 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 could not convene.

The agency’s programs were carried out by staff under the supervision of the Executive Director, who was appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

The Community Services Agency Act of 1996 created the community services agencies. The purpose of these agencies was to coordinate funds and programs designated for care of children and other citizens in the state.

AUDIT SCOPE

We have audited the Knox County Community Services Agency for the period July 1, 2003, through June 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 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

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 Knox County Community Services Agency filed its report with the Department of Audit on April 27, 2005. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Knox County Community Services Agency has corrected the previous audit findings concerning internal control over travel claims and compliance with internal policies and procedures when purchasing goods and services for children and families.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning compliance with contract terms and contract rules and regulations and membership of the CSA board of directors that violates state law. These findings have not been resolved and are repeated in the applicable sections of this 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 cash and cash receipting were adequate;
- receipts were posted correctly to the accounting records;

- the agency deposited funds within one day of receipt;
- reconciliations between the cash receipts and the deposit slips were performed; and
- bank statements were accurate and 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 over bank reconciliations and cash receipts. We obtained the cash receipts for July 1, 2003, through June 30, 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 bank reconciliations for the audit period and verified the accuracy of the January 31, 2005, bank reconciliation.

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

EXPENDITURES AND PROGRAM COMPLIANCE

Our primary objectives were to determine whether

- the agency's controls over expenditures were adequate;
- the agency corrected prior-year audit findings;
- the plan of operation and amendments were properly approved;
- expenditures for goods or services were properly approved, supported, and allowable (including payments for services under the Family Support Services, Family Crisis Intervention, and Independent Living Programs);
- goods or services 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;
- 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 followed up prior audit findings to determine if corrective action was taken. 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 that expenditures were approved, supported, and allowable under the applicable guidelines for the Family Support Services, Family Crisis Intervention, and Independent Living Programs. We also reviewed sample transactions to determine that goods and services were received prior to payment. In addition, we reviewed the check register and selected all single purchases over \$5,000 and aggregate annual purchases of \$25,000 or more to a single payee to determine whether the payments were made under an approved contract and the agency made a public announcement of funds, if 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 by applicable policies and procedures. 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 the 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

- the plan of operation and related amendments were properly approved;
- expenditures for goods or services were properly approved, supported, and allowable;
- goods or services were received prior to payment;
- the agency made public announcement of funds, if necessary;
- 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.

We determined that although the agency corrected two of the prior audit findings, the CSA again paid for services without contracts in place as noted in finding 1 below. Also, 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 finding 2 below. We also noted that the CSA did not have adequate controls regarding its review of invoices from service providers before payments were made, which resulted in unauthorized, unsupported, or unallowable expenditures. In addition, the CSA did not review the invoices for overlapping service periods. See finding 3. In addition, the CSA did not correct the prior audit finding related to membership of the board of directors. See finding 4 for the repeat finding.

1. The agency still did not enter into contracts with service providers as required

Finding

As noted in the prior audit report, the Knox County Community Services Agency (CSA) did not enter into contracts with service providers as required.

Rule 0250-7-6-.05(3)(b) of the *Rules and Regulations of the Tennessee Department of Children's Services, Social Services Division, Community Health Agency Rules and Regulations*, states,

Contracts must be obtained for purchases of services where an individual purchase is greater than \$5,000 or the anticipated aggregate annual purchase of like services from the same vendor is greater than \$25,000.

In its response to the prior year's finding, management stated that it had intensified its scrutiny of contracts during the year and corrective actions were taken. However, based on our review of 17 of the CSA's single payments for purchases of greater than \$5,000 and aggregate annual payments for purchases of like services from the same vendor greater than \$25,000, the following discrepancies were noted:

- The CSA incurred a \$7,664 expenditure on August 13, 2004, for services provided by a vendor during the year ended June 30, 2004, without a contract in place.
- The CSA incurred a \$7,110 expenditure on February 22, 2005, for services provided by a vendor during the period July 1, 2004, through February 28, 2005, without a contract in place.

Recommendation

Subsequent to June 30, 2005, the Knox County Community Services Agency ceased operations.

Management's Comment

We concur with this finding concerning the compliance with Department of Children's Services contract regulations. The expenditure for \$7,664 was paid to a vendor from the Emergency Residential program. The CSA neither controlled the budget of this program nor had the authority to approve or disapprove expenditures from this source of funding which was administered entirely by the regional office of DCS.

The other expenditure for \$7,110 was to an individual who individually provided services after a three partner entity dissolved due to the reported misconduct of the managing partner causing the immediate termination of the contract. This sudden change in the entity with which business was being done resulted in not having a contract in place in a timely manner.

As of August 1, 2005, the CSA was absorbed by the regional DCS office and the manner of purchasing services was altered to the system and contractual requirements of DCS.

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

Finding

The Knox County Community Services Agency (CSA) did not comply with case management policies and procedures related to case file documentation and its contacts with children and families.

The Department of Children's Services contracted with the CSA to obtain and provide services to noncustodial children, and their families, who were at imminent risk of entering state custody or who had been in the state's custody and had returned to their families. The CSA provided case management services under the Family Support Services Program (FSS) and the Family Crisis Intervention Program (FCIP) including case manager visits with children and their families and maintenance of case files.

The Department of Children's Services developed policy and procedure manuals for both the FSS and FCIP establishing the requirements for case management services and case file documentation. The program manuals stipulated the timing, frequency, and nature of required contacts; the forms or documents that must be obtained or prepared; and the method of documenting or maintaining evidence to support compliance with the policies and procedures. Details regarding the case management services were recorded in TNKIDS, a computerized tracking system. The child's case file, which was maintained by the CSA, should have contained

all important documents discussed with the family as well as copies of the case recordings detailed in TNKIDS.

We requested 27 children's case files to specifically determine that CSA staff maintained complete case files, including the TNKIDS case recordings, and that CSA staff made the required face-to-face contacts with the child, family, or other individuals. Our review of the children's case files revealed the following weaknesses:

1. For one of the 27 children's case files requested to review (4%), the CSA did not maintain a complete case file for the child. The agency provided a file that contained only a discharge summary and a risk assessment for this child. The CSA did not maintain case recordings for this child in the case file or on the TNKIDS database. Additionally, there was no initial referral for services in the file. Management stated that the case manager assigned to the case did not always keep adequate case files and did not always put case recordings into the TNKIDS database. The case manager resigned before she could be terminated or disciplined.
2. For 5 of 27 children's files tested (19%), the file did not contain adequate case recordings and progress notes. For 2 of these 5 files (one of which is noted above), the CSA did not maintain case recordings in the files or on the TNKIDS database. For the other 3 files, the case recordings were not always prepared monthly for inclusion in the case file or documented on the TNKIDS database.

Department of Children's Services Internal Policy 31.5 states that ". . . Case recordings and all other documentation shall be added to the case file within 30 days of case work activity. Each case shall have a case recording for each month that the case is open."

3. For 12 of 27 children's files tested (44%), based on our review of the case recordings, the case manager did not make the initial face-to-face contact with the child within five working days of the initial contact as required. For 8 of these children, the initial face-to-face contact between the case manager and the child was 6 to 36 days after the initial contact was made. For the other 4 children, there were no case recordings for 2 children, as noted in #2. above, and the case recordings for 2 other children were incomplete; therefore, we could not determine when or if the initial face-to-face contacts actually took place.

The Department of Children's Services *Policy and Procedure Manual for Family Support Services*, Section V, Service Delivery, page 11, states,

In cases that are not indicated as an emergency, the Family Support staff person will make initial contact (either face to face or by phone) with the family within 24 hours or 1 working day . . . After the initial contact the FSS case manager must follow up with a face-to-face contact within 5 working days . . . If the referring case manager has recommended that the family receive emergency services, the Family Support case manager

must make initial contact on the same day and will have a follow-up face-to-face contact with the family within 48 hours. . . .

4. For 17 of 27 children's files tested (63%), the child's file did not contain documentation to indicate that the case manager made the required face-to-face contacts with the child at least once per month. In 15 of these files, the gaps between the case managers' face-to-face contacts with the children were 46 to 181 days. For the other 2 files, as noted above the case manager did not maintain case recordings. Therefore, we could not determine whether the face-to-face contacts with the children were made at least once per month.

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 month for the remainder of the service delivery phase.

5. For 18 of 27 children's case files tested (67%), the file did not contain a service plan completed within 15 working days of the initial referral for services. Four children's files did not contain a service plan. For the other 14 files, the service plans were completed between 17 to 144 days after the referral was received. Also, for 3 of these 14 files, the service plans did not contain all of the proper signatures.

The Department of Children's Services *Policy and Procedure Manual for Family Support Services*, Section V, Service Delivery, page 13, states that the

. . . Family Support Services case manager will develop an assessment and a written Service Plan that addresses the unique needs of the child and family within 15 working days of receipt of the authorization. The plan should be signed by the adult family members and by the child at risk as appropriate.

Recommendation

Subsequent to June 30, 2005, the Knox County Community Services Agency ceased operations.

Management's Comment

We concur that the agency did not comply with case management policies and procedures related to case file documentation and contacts with children and families. A problem persisted in the numerous policies under the Family Support Services Program in draft format. Currently, work is being done to formulate and establish policy for this program as the CSA's are transitioning into DCS.

The deficiencies in the case files and progress notes were primarily the responsibility of a single case manager no longer with the agency. Monthly reports are now distributed to Team Leaders to ensure compliance with these policies.

Some of these cases missed the initial contact time frames due to the client's non-compliance while others had documented waivers from their Team Leaders. The initial contact time frames have been revised since the implementation of the structured decision making assessments which gives each case a different time frame depending on the risk level. The Team Leaders are assisting the case managers in tracking these new time frames.

Until March 2005, case managers could request waivers of monthly visits from their supervisor, but this practice has ceased. Presently waivers may be granted if the case manager has made reasonable efforts to contact the family, including at least three unannounced visits at different times of day, and still cannot contact the non-compliant client.

The majority of policies state 30 calendar days to complete the family service plan which has been in effect for some time. This time frame is still utilized so that the case manager has time to assess the client and family's strengths, needs, and to develop the appropriate plan of action.

3. Because management did not ensure that the controls over the review of invoices and the payment to service providers were adequate, the CSA paid for unauthorized, unsupported, and unallowable services

Finding

The Knox County Community Services Agency (CSA) failed to establish adequate internal controls regarding its review and payment of invoices to service providers. This resulted in unauthorized, unsupported, and unallowable expenditures. Specifically, although the CSA staff reviews invoices before payment, the reviewers did not always identify the following deficiencies before payments were made:

- invoices for payments to children that were not approved;
- invoices for more services to children than were authorized by CSA staff; and
- invoices for services that were not allowed according to the Department of Children's Services or CSA policy.

Furthermore, the CSA did not review invoices from service providers to identify overlapping segments of services as described below in further detail.

The State of Tennessee, Department of Children's Services contracted with the CSA to provide child and family case management services and other services to children who had been in the state's custody or who were at imminent risk of entering state custody. The CSA's employees provided the case management services, and other services were provided by service providers on contract with the CSA.

Our procedures regarding the payment of services on behalf of children included two nonstatistical samples. First, we selected a sample of 27 checks totaling \$66,552 from a population of \$2,275,831. Based on our review, we found that 6 of the 27 checks tested (22%), contained errors.

For 4 of the 6 checks, the CSA paid \$1,654 to one service provider for expenditures that were unauthorized and unsupported. Based on review of this vendor's invoices and progress notes, we found:

- The CSA paid the vendor \$1,147.50 in excess of the authorized amount of services as documented on the CSA Authorization of Services form.
- The vendor billed the CSA for seven attempted home visits (totaling 9.0 hours) to a child or the family; however, contact was not made on any of these seven attempts. Based on discussion with CSA management, the CSA should have allowed this provider 30 minutes per attempted visit; however, the CSA paid \$405.00 for 9 hours, resulting in an overpayment of \$247.50.
- The vendor billed the CSA for overlapping segments of time. In some instances, documentation indicated that the vendor's case manager was present at two or more locations at the same time. The total amount paid to this provider for overlapping segments of time was \$258.75 for 5.75 hours.

For the other 2 of 6 checks, the CSA paid 2 children \$350 for gifts or personal expenses that were unapproved or were unallowable. Based on review of the case recordings and invoices, we found:

- The CSA paid a child \$150 for the child's personal expenditures which were not allowable. The case recordings in the child's file indicated that this child was receiving room and board payments from the Department of Children's Services. According to the Department of Children's Services, *Purchasing Independent Living Services Policy* 16.54 allows the CSA to pay \$75 per month [\$50 prior to January 1, 2005] for personal expenses for young adults in a post-secondary program if the individual is not receiving room and board payments.
- The CSA paid \$200 for a "holiday gift" for one child without approval from the Department of Children's Services' Central Office.

In addition, we selected a nonstatistical sample of 41 children's files from a population of 1,133 children's files. Specifically, we reviewed \$44,317 of \$1,403,650, in payments to service providers. The CSA is required by the Department of Children's Services *Policy and Procedure Manual for Family Support Services* to maintain case files and adequate documentation of the services provided to each child and family. Our review of the children's files revealed the following weaknesses:

- Based on our review, for 9 of 41 files tested (22%), the CSA paid service providers in excess of the authorized amount of services on the CSA Authorization of Services form. The total unauthorized amount paid on behalf of these 9 children was \$2,492.88.
- For 2 of 41 files tested (5%), the CSA paid service providers for services that were not supported adequately. One of these files did not contain appropriate bid documentation for a goods purchase in the amount of \$687.95. The other file contained one expenditure item for \$360 in which there were no supporting progress notes.

We discussed with management the enhanced risk of provider fraud and management's inadequate controls over the review of service providers' invoices prior to payment. Management agreed and the Executive Director instructed employees to review all billings from one service provider for the previous 12 months. Subsequent to fieldwork, management provided us the results of its review. Based on the documentation provided, the CSA staff discovered an additional \$2,786 in overpayments to this service provider. Management informed us that the service provider had filed bankruptcy, and it will discuss the possibility of collecting any overpayments from the service provider with the Department of Children's Services' legal staff.

Because management did not ensure that the controls over the review of invoices and the payment to service providers were adequate, the CSA paid for unauthorized, unsupported, and unallowable services.

Recommendation

Subsequent to June 30, 2005, the Knox County Community Services Agency ceased operations.

Management's Comment

We concur with the audit finding that controls over the review of invoices and the payment to service providers were inadequate in a number of instances.

The agency has begun using a "Request for Increase in Hours" form that the vendors fill out when approaching the end of their contracted hours for the month. Funding Unit staff must approve and sign off on the increase before the hours can be used.

In attempting a home visit in which no contact is made, our policy has been to allow the vendor to charge fifteen minutes per attempt. In the event that the home is a significant distance away and does not have a phone, the vendor may be allowed more than the allotted minutes to compensate for time spent. In addition, vendors have been instructed not to bill twice for time spent at the home by two or more members of the same agency. An exception is allowed when the two members are performing decidedly different tasks (i.e., counseling and homemakers services) with different members of the family. When a phone call is taken regarding a different family while the agency member is at the home of another client family, this time must be divided up in the case notes so as not to reflect being in two different places at the same time.

For the \$150 paid in a personal expense grant to an Independent Living child, the Funding Unit was not aware of the board payments being received by the child's foster parent. This fact is supposed to be noted on the referral from the home county case manager, but apparently was not. Central office program personnel now approve all expenditures made for Independent Living to increase program coordination and policy compliance. The \$200 holiday gift paid to an Independent Living client was approved by the program director for this client as well as approximately twenty other similar clients.

Bids are now acquired for any item purchase that approximates greater than \$500 by the referring case manager. Approval for the purchase is not made unless proper paperwork is completed.

4. The membership of the CSA board of directors continued to violate state law

Finding

As noted in the prior audit, the Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the community services agency (CSA) service area, serves on the board of directors of the Knox County CSA in violation of state law. Section 37-5-305(c), *Tennessee Code Annotated*, states, "The membership of each board serving a metropolitan community services agency shall consist of at least twelve (12) members appointed by the governor."

As a board member, the Regional Administrator can vote on all CSA business including the adoption of written policies, procedures, or rules and regulations to govern the CSA's

internal operations; the making and executing of contracts; and the receiving, administering, allocating, and disbursing of funds made available under any federal or state assistance program.

The statute defining the board composition of the metropolitan community services agencies, such as Knox County CSA, does not include the Commissioner or the Commissioner's designee.

Management of the agency and the Department of Children's Services concurred with the prior finding and stated:

Knox County Community Services Agency

We concur that the DCS Regional Administrator has been a member of the Board of Directors. It has been the practice for Regional Administrators to serve as the Commissioner's Designee for all regions, which included voting privileges.

On October 1, 2003, we received notification from former DCS Commissioner Michael Miller's office that the Regional Administrator's role on the board could be construed as a conflict of interest. We were instructed to have them serve as an ex officio member of the board, without voting rights and without convening power or eligibility to hold board office. Again, it was the practice to have them service [*sic*] in all regions. Their role was to be a "consultant to the board from DCS and an informant to DCS concerning CSA board activities." This change was implemented.

On May 6, 2004, we received notification from DCS Commissioner Viola Miller that she reversed this decision. We were instructed to have the Regional Administrator serve on the board as a voting member in each DCS region. This change was implemented. We feel compelled to conduct board business as instructed by the DCS Commissioner.

Department of Children's Services

We concur that composition of the metropolitan CSA boards shall be made by appointment of the Governor. Any appointments not made by the Governor are invalid and void. However, should the Governor appoint the Commissioner of the Department of Children's Services or her designee, the department contends that such appointment is legal, valid and ethical.

This will be corrected by asking the Governor to appoint the Commissioner or her designee to serve on each metropolitan CSA board at the next available vacancy. The Regional Administrator will be advised to attend the meetings and represent the Commissioner but to refrain from voting until the appointment is made by the Governor.

Based on our discussion with the CSA's Executive Director, the Governor has not appointed the Regional Administrator to the board. Furthermore, the Regional Administrator has continued to vote on CSA business against the advice of the Commissioner of the Department of Children's Services.

Recommendation

Subsequent to June 30, 2005, the Knox County Community Services Agency ceased operations.

Management's Comment

Knox County Community Services Agency

We concur that the DCS Regional Administrator has been a member of the Board of Directors. It has been the practice for Regional Administrators to serve as the Commissioner's Designee for all regions, which included voting privileges.

Department of Children's Services

We concur. To address the issue of improper members on the voting board, DCS requested information from the Governor's office. To date no response has been received from that office. Also, members on the board working as Regional Administrator were advised not to vote until DCS staff could review the issue. Beginning July 2005 the Knox County CSA was re-organized and became part of the Department of Children's Services. All staff and responsibilities became DCS functions. Due to changes in the organization this issue should be resolved.

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.

APPENDIX

**KNOX COUNTY COMMUNITY SERVICES AGENCY
AS OF JUNE 30, 2005**

Marcus Hill, Executive Director

BOARD OF DIRECTORS

Board Officers

Terry Brown, Chair

Ann Ince, Vice Chair

Bert Bertelkamp, Treasurer

Cecelia J. Walters, Secretary

Steve Garrett, Sergeant-at-Arms

Other Members of the Board of Directors

Richard L. Bean

Addie Hudson

Annie M. Jones

Carole Martin

Patsy Miller

Dannie Varlan

Susan Kovak, DCS Commissioner's Designee