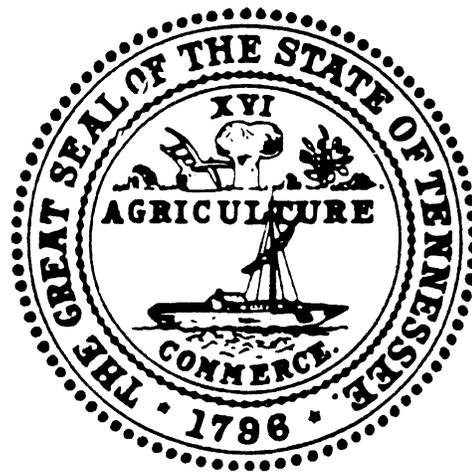


AUDIT REPORT

Davidson County Metropolitan 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
(615) 741-2501

John G. Morgan
Comptroller

May 18, 2006

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

Board of Directors

Davidson County Metropolitan Community Services Agency

311 23rd Avenue North, Suite 217

Nashville, Tennessee 37203

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Davidson County Metropolitan Community Services Agency for the period July 1, 2003, through June 30, 2005. The Davidson County Metropolitan Community Services Agency ceased operations on June 30, 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/ddm
05/091



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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August 30, 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 Davidson County Metropolitan Community Services Agency for the period July 1, 2003, through June 30, 2005. The Davidson County Metropolitan Community Services Agency ceased operations on 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 Davidson County Metropolitan Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Davidson County Metropolitan 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 board chairman has responded to the audit finding; we have included the response following the finding.

We have reported other less significant matters involving the agency's internal control to the Davidson County Metropolitan Community Services Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddm

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Davidson County Metropolitan Community Services Agency

May 2006

AUDIT SCOPE

We have audited the Davidson County Metropolitan 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 payroll and personnel, cash, and expenditures and Caring for Children 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 FINDING

Davidson County Metropolitan Community Services Agency Did Not Monitor Its Agreements With the Metropolitan Government of Nashville and Davidson County or the Mid-Cumberland Community Services Agency, Increasing the Risk That Funds Were Not Properly Used*

The Davidson County Metropolitan Community Services Agency did not monitor its agreements with the Metropolitan Government of Nashville and Davidson County or the Mid-Cumberland Community Services Agency to ensure compliance with the terms of the agreements. Also, although the agreement between the Davidson County Metropolitan Community Services Agency and the Mid-Cumberland Community Services Agency ended on June 30, 2004, the two agencies continued to operate as if the same agreement was in place for the fiscal year ended June 30, 2005 (page 5).*

* This finding is repeated from the prior audit.

Financial and Compliance Audit Davidson County Metropolitan Community Services Agency

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Financial and Compliance Audit Davidson County Metropolitan Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

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

BACKGROUND

The Davidson County Metropolitan Community Services Agency ceased operations on June 30, 2005. Prior to that date, the board of the Davidson County Metropolitan Community Services Agency had an agreement with the Metropolitan Government of Nashville and Davidson County for the operation of the programs. All records, purchasing, accounting, and financial procedures were subject to the policies and procedures of the Metropolitan Government of Nashville and Davidson County, except in the case of a conflict between the state’s and metropolitan government’s rules and regulations. In such a case, the policies and procedures of the state prevailed. In May 2003, the board contracted with Mid-Cumberland Community Services Agency to manage the administrative and fiscal affairs of the Davidson County Metropolitan Community Services Agency.

The governing body of the Davidson County Metropolitan Community Services Agency was the board of directors. As of June 30, 2005, the board was composed of ten members. (See Appendix.)

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

AUDIT SCOPE

We have audited the Davidson County Metropolitan 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 payroll and personnel, cash, and expenditures and Caring for Children 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).

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 Davidson County Metropolitan Community Services Agency filed its report with the Department of Audit on May 12, 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 Davidson County Metropolitan Community Services Agency has resolved previous audit findings concerning not operating as a distinct entity, incurring expenses without an executed contract, board membership violating state law, and transferring funds in violation of state statute.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning Davidson County Metropolitan CSA not monitoring its agreement with the Metropolitan Government of Nashville and Davidson County (Metro). The board entered into an agreement with the Mid-Cumberland CSA to provide certain administrative and fiscal services including the monitoring of the agreement between Davidson County Metropolitan CSA and Metro. However, no monitoring was performed by Mid-Cumberland CSA. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

PAYROLL AND PERSONNEL

Our objectives for payroll and personnel were to determine whether the agency's controls and procedures over payroll and personnel were adequate, newly hired employees were qualified for their positions and their initial wage and amount paid were properly calculated, and the final pay for terminated employees was properly calculated.

We interviewed responsible personnel and reviewed supporting documentation to gain an understanding of the agency's controls and procedures over payroll and personnel. The supporting documentation reviewed included an application for employment, a resume, and a personnel file. We tested the employee hired during the audit period to determine if the employee was qualified and his initial wage and amount paid were properly calculated. We also tested the employee who terminated through resignation during the audit period to determine if the employee's final pay was properly calculated.

Based on our interviews and reviews of supporting documentation, we determined that controls and procedures regarding payroll and personnel were adequate. Based on the testwork performed on the newly hired employee, we determined that the employee was qualified for his position and his initial wage and amount paid were properly calculated. Based on the testwork performed on the terminated employee, we determined that the final pay was properly calculated.

CASH

Our objectives for cash were to determine whether the agency's controls ensured that transactions were properly supported, checking account and Local Government Investment Pool (LGIP) account functions were adequately segregated, and bank reconciliations were properly completed on all accounts.

To accomplish our objectives, we interviewed responsible personnel and reviewed supporting documentation to gain an understanding of the agency's procedures and controls over cash in order to determine if transactions were properly supported and checking and LGIP account functions were adequately segregated. We reviewed all Local Government Investment Pool (LGIP) reconciliations completed during the months of July 2003 through June 2005 to determine if the LGIP reconciliations were properly completed. We also requested reconciliations for the agency's checking account for the months of July 2003 through June 2005 to determine if the checking account reconciliations were properly completed.

Based on our interviews and reviews of supporting documentation, we determined that the agency had sufficient controls to support cash transactions. We also determined that checking account and LGIP account functions were adequately segregated based on the size of

the agency except as discussed in the finding on page 5. Based on our testwork, we determined that LGIP reconciliations were properly completed in all material respects. However, there were no documented reconciliations performed on the agency's checking account. Based on interviews and review of the contract between the Davidson County Metropolitan Community Services Agency (CSA) and the Mid-Cumberland CSA, reconciliations were to be performed by Mid-Cumberland CSA. These problems are discussed in the finding on page 5 in the Expenditures and Caring for Children Program Compliance section of the audit report.

EXPENDITURES AND CARING FOR CHILDREN PROGRAM COMPLIANCE

The primary objectives of our review of expenditures and Caring for Children Program compliance were to determine whether

- the agency's controls over expenditures and Caring for Children 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;
- monitoring procedures were in place to ensure that grant funds were expended in accordance with contract provisions;
- vendor contracts were obtained where necessary;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations; and
- the agency's procedures for the debit card were adequate and purchases involving the debit card were appropriate.

To accomplish our objectives, we interviewed responsible personnel to gain an understanding of procedures and controls over expenditures and Caring for Children Program compliance requirements. 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 all transactions, excluding payroll transactions, from July 1, 2003, through June 30, 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 also inquired of responsible personnel as to the monitoring procedures performed to ensure that grant funds were expended in accordance with contract provisions.

We reviewed the check register for the period July 1, 2003, through June 30, 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 the payments were made under an approved contract. We tested all travel claims reimbursements from July 1, 2003, through June 30, 2005,

to determine whether claims were paid in accordance with travel regulations. We reviewed procedures for debit card purchases and reviewed all debit card transactions for appropriateness.

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

- controls over expenditures and Caring for Children Program compliance were adequate except as discussed in the finding in this section;
- the plan of operation and related amendments were properly approved;
- in all material respects, expenditures for goods or services were properly approved, supported, and allowable;
- goods or services were received prior to payment;
- vendor contracts were obtained where necessary;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations; and
- the agency's procedures for the debit card were adequate, and purchases involving the debit card were appropriate.

However, monitoring procedures were not adequate to determine if grant funds were expended in accordance with contract provisions. The Davidson County Metropolitan Community Services Agency (CSA) entered into a purchase agreement with the Mid-Cumberland CSA to provide certain administrative and fiscal services including the monitoring of the agreement between Davidson County Metropolitan CSA and the Metropolitan Government of Nashville and Davidson County (Metro). The purchase agreement between Davidson County Metropolitan CSA and Mid-Cumberland CSA also stated that the Mid-Cumberland CSA Director of Fiscal Services would become the Davidson County Metropolitan CSA Acting Director of Fiscal Services and perform certain fiscal services. However, the Davidson County Metropolitan CSA Board of Directors did not monitor this contract to determine that Mid-Cumberland CSA was performing these services. These problems are detailed in the following finding.

Davidson County Metropolitan Community Services Agency did not monitor its agreements with the Metropolitan Government of Nashville and Davidson County or the Mid-Cumberland Community Services Agency, increasing the risk that funds were not properly used

Finding

As noted in the previous three audits, management had not monitored its contract with the Metropolitan Government of Nashville and Davidson County (Metro). Prior to the Davidson County Metropolitan Community Services Agency (CSA) ceasing operations on June 30, 2005, the CSA had no employees. Instead, Davidson County Metropolitan CSA had an agreement with

Metro for the operation of its programs through Metro's Caring for Children Program. In response to prior audit findings, the board of Davidson County Metropolitan CSA entered into a purchase agreement with the Mid-Cumberland CSA to provide certain administrative and fiscal services. Since Davidson County Metropolitan CSA had no employees, the board needed the agreement with Mid Cumberland CSA to assist in managing its administrative and fiscal affairs including the monitoring of the agreement with Metro. 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. The agreement with Mid-Cumberland CSA to perform these services did not relieve Davidson County Metropolitan CSA of the responsibility for ensuring that the monitoring of Metro had been performed. 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 \$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 request a transfer of funds to Metro upon receiving the DCS remittance advice for the transfer.

- 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.
- 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.” The Davidson County Metropolitan Community Services Agency’s failure to properly monitor its agreements increased the risk that funds were not properly used.

Recommendation

The board of the Davidson County Metropolitan Community Services Agency voted to cease operations as of June 30, 2005. Should the Davidson County Metropolitan CSA be reestablished and enter into any new agreements or contracts, the Davidson County Metropolitan CSA board should ensure these agreements or contracts are properly monitored for compliance and renewed as necessary.

As discussed in the similar finding in the Mid-Cumberland CSA audit report for the period July 1, 2003, through April 30, 2005, the Mid-Cumberland CSA board and Executive Director should ensure 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.

Management’s Comment

We concur. Since the agency is no longer in operation, there is nothing that now needs to be done to correct the cause of this finding. While there is clear indication that the Davidson County Metropolitan Community Services Agency did not properly monitor its agreements, there is no indication that the actions or inactions by either Metropolitan Government of Nashville and

Davidson County or the Mid-Cumberland Community Services Agency resulted in the misuse or loss of any state funds in the provision of services under these agreements.

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. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

APPENDIX

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY as of June 30, 2005

BOARD OF DIRECTORS

Board Officers

Mr. Bart Perkey, Chair
Ms. Carla Fenswick, Vice-Chair
Mr. Arthur Rebrovick, Jr., Secretary/Treasurer

Other Members of the Board of Directors

Judge Betty Adams Green
Mr. William Ballard
Ms. Gayle Barbee
Mr. Chris Ferrell
Dr. Maria Frexes-Steed
Ms. Jennifer Hatten
Ms. Charita Upkins