

AUDIT REPORT

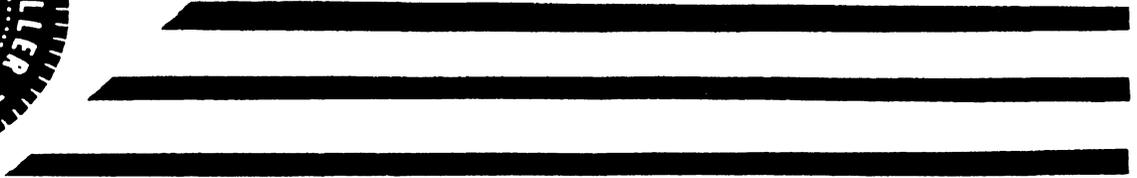
Mid-Cumberland Community Services Agency

November 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

November 28, 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
Columbia, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland Community Services Agency for the period May 1, 2005, through June 30, 2006.

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
06/096



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

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July 20, 2006

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 May 1, 2005, through June 30, 2006.

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 a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The agency's management has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the agency's internal control and instances of noncompliance to the Mid-Cumberland 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
Mid-Cumberland Community Services Agency
November 2006

AUDIT SCOPE

We have audited the Mid-Cumberland Community Services Agency for the period May 1, 2005, through June 30, 2006. 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 Interim Shelter Program. 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; participation in the negotiation and procurement of services; and approving the Community Services Agencies' Plans of Operation (budgets).

AUDIT FINDING

Agency Personnel Did Not Promptly Deposit Cash Receipts, Increasing the Risk of Fraud and Misappropriation of Funds

The Mid-Cumberland Community Services Agency did not make prompt deposits of cash receipts in accordance with its policy. A total of 125 late cash receipt deposits were noted totaling \$61,796 (page 3).

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

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Financial and Compliance Audit Mid-Cumberland Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is the 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 June 30, 2006, the board had six members. (See Appendix.) An executive committee, consisting of six 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 the 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 was appointed by the Commissioner of the Department of Health in 1991 and approved by the board. At that time, the agency’s name was Mid-Cumberland Community Health Agency.

The agency’s primary mission is to effectively develop, coordinate, and utilize every available community resource to provide timely, cost-effective, and appropriate services that are beneficial to the health, well-being, stability, and safety of the families within the Mid-Cumberland Region.

AUDIT SCOPE

We have audited the Mid-Cumberland Community Services Agency for the period May 1, 2005, through June 30, 2006. 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 Interim Shelter Program. 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; participating in the negotiation and procurement of services; 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 Mid-Cumberland Community Services Agency filed its report with the Department of Audit on August 15, 2006. A follow-up of all prior audit findings was conducted as part of the current audit. The current audit disclosed that the Mid-Cumberland Community Services Agency has resolved previous audit findings concerning background checks not being performed timely for case managers; documents not always being properly prepared, submitted, or reviewed and approved in accordance with agency policies; and failing to provide all the services required by an agreement entered into with Davidson County Metropolitan Community Services Agency.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CASH AND CASH RECEIPTS

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

- the design of the agency's controls over cash and cash receipting was adequate;
- revenues recorded for the TennCare Transportation Program were reasonable in relation to the number of clients served;

- bank reconciliations were properly completed on all accounts in a timely manner;
- cash receipts were posted correctly to the accounting records; and
- the agency deposited funds promptly in accordance with policy

To accomplish our objectives, we interviewed management and observed internal controls to gain an understanding of the agency's procedures and controls for bank reconciliations and cash receipts. We obtained TennCare enrollment data from the Bureau of TennCare in the Department of Finance and Administration, calculated TennCare Transportation estimated revenue, and compared the estimated revenue with the revenue recorded by the agency. We reviewed all operating bank account and Local Government Investment Pool (LGIP) account reconciliations completed during the months of May 2005 through May 2006 for proper approval and timeliness of completion. We also tested the April 2006 operating bank account and LGIP account reconciliations by agreeing all amounts to support. In addition, we obtained the cash receipts for May 1, 2005, through June 30, 2006, and tested a nonstatistical sample of cash receipts for proper posting to the accounting records and for timeliness of deposit in accordance with policy.

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

- in all material respects, the agency's controls over cash and cash receipting were adequately designed;
- amounts received for TennCare Transportation were reasonable;
- in all material respects, bank reconciliations were accurate and performed promptly;
- cash receipts were posted correctly to the accounting records; and
- the agency did not deposit funds promptly in accordance with policy (see finding).

Agency personnel did not promptly deposit cash receipts, increasing the risk of fraud and misappropriation of funds

Finding

The Mid-Cumberland Community Services Agency did not make prompt deposits of cash receipts in accordance with its policy. The agency's internal operations policy entitled "Depositing of Revenues" states:

Monies collected by the Agency will be promptly receipted and must be routinely scheduled for deposit at [a] minimum of twice weekly. However, if total amount collected exceeds \$50.00 at any time prior to the scheduled date of deposit, such monies must be deposited within one business day of receipt.

Seven of 25 cash receipts tested (28%) were not deposited when required by policy. These cash receipts consisted of cash and checks. The number of business days late ranged from one to six business days (an average of two business days late). The total amount of the seven late cash receipts tested was \$202. We also reviewed the remaining cash receipts written on the same days as the seven cash receipts that were deposited late and cash receipts observed during other testwork. This review found that the agency had not promptly deposited 118 other cash receipts totaling \$61,594. Again, the number of business days late ranged from one to six business days (an average of two business days late).

Of the 125 cash receipts that were not promptly deposited, 118 were from the months of January 2006 and February 2006. Management stated there was a shortage of personnel during this period, including the absence of a fiscal director. In addition, management stated the agency's focus was on working with participants in the agency's Interim Shelter Program. The remaining seven cash receipts were from April 2006.

When cash receipts are not promptly deposited, there is an increased risk of fraud and misappropriation of funds. Therefore, even during periods of employee turnover, it is important that employees promptly deposit all cash receipts while performing other necessary functions.

Recommendation

The agency's fiscal director should ensure that cash receipts are promptly deposited to the agency's bank account as required by agency policy.

Management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur: Management has assessed the risk and has determined to assign a specific staff person to be responsible for taking the deposits to the bank daily, which would be separate from the person preparing the deposits, in order to add another level of control and ensure timeliness of deposits. Management has also identified two staff members that will be responsible for the ongoing monitoring for compliance to ensure all requirements are being met and will take prompt action should exceptions occur, which are the fiscal specialist and the fiscal director.

EXPENDITURES AND PROGRAM COMPLIANCE

The primary objectives of our review of expenditures and program compliance were to determine whether

- the design of the agency's controls over expenditures and program compliance was adequate;
- the plan of operation and amendments were properly approved;
- case files adequately documented individual families' eligibility for the Interim Shelter Program;
- expenditures for goods or services were properly approved, supported, and allowable under applicable Interim Shelter Program guidelines;
- goods or services were received prior to payment; 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. We also reviewed written policies and procedures. We obtained the plan of operation and related amendments to determine the appropriateness of approvals. We examined a nonstatistical sample of the Interim Shelter Program enrollee case files to determine if individual families' eligibility for the Interim Shelter Program was adequately documented. We obtained the agency's check register and tested a nonstatistical sample of Interim Shelter Program expenditures to determine that expenditures were approved, supported, and allowable under the applicable guidelines for the Interim Shelter Program. In addition, we tested the Interim Shelter Program expenditures sample for evidence that the goods or services were received prior to payment. We discussed policies and procedures for credit card purchases with staff and tested all credit card purchases for appropriateness.

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

- the design of the agency's controls over expenditures and program compliance was adequate;
- the plans of operation and amendments were properly approved;
- case files adequately documented individual families' eligibility for the Interim Shelter Program;
- in all material respects, expenditures for goods or services were properly approved, supported, and allowable under applicable Interim Shelter Program guidelines;
- goods or services were received prior to payment; and

- in all material respects, the agency's policies and procedures for credit cards were adequate and purchases made with the cards were appropriate.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. 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 entity 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 entity.

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 entity. Although internal and external 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 entity.

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, 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

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;
5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

In the previous audit report, we reported that the board of directors of the agency appointed a four-member audit committee, and the audit committee first met on July 6, 2005. The audit committee charter was approved by the Comptroller of the Treasury on September 25,

2006. Additionally, the audit committee has reviewed the board and agency's conflict-of-interest policies, which require conflict-of-interest forms to be completed annually.

At the end of audit fieldwork on July 20, 2006, the audit committee had not received management's risk assessments and had not evaluated the agency's corresponding system of internal controls related to those risks. Also, the audit committee had not reviewed a code of conduct for the agency and the agency's process for monitoring compliance with laws and regulations. In addition, the audit committee needs to establish procedures for employees to notify the audit committee directly about accounting, internal controls, and auditing matters. These procedures should include the methods for the receipt, retention, and treatment of complaints.

APPENDIX

**Mid-Cumberland Community Services Agency
as of June 30, 2006**

Beverly Bass, Executive Director

BOARD OF DIRECTORS

Executive Committee Members

Julie Mills, Chair
Mary Elaine Horn, Vice Chair
Bettye McKinnon, Secretary
Martha Brooke Perry, Treasurer
Barbara Swader, At-Large
Judy White, At-Large

Audit Committee

Judy White, Chair
Martha Brooke Perry
Bettye McKinnon,
Julie Mills, Ex Officio