

# AUDIT REPORT

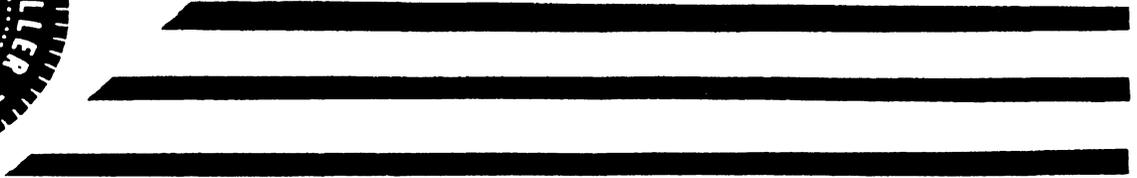
Mid-Cumberland Community Services Agency

July 2008



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

July 31, 2008

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, 2006, through September 30, 2007. On October 1, 2007, Mid-Cumberland Community Services Agency merged with Northwest Community Services Agency to form Mid-West Community Services Agency.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/wb  
07/053



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

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February 1, 2008

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, 2006, through September 30, 2007. On October 1, 2007, Mid-Cumberland Community Services Agency merged with Northwest Community Services Agency to form Mid-West Community Services Agency.

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 was responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit resulted in no audit findings.

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

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/wb

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Mid-Cumberland Community Services Agency**  
July 2008

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## AUDIT SCOPE

We have audited the Mid-Cumberland Community Services Agency for the period July 1, 2006, through September 30, 2007. On October 1, 2007, Mid-Cumberland Community Services Agency merged with Northwest Community Services Agency to form Mid-West Community Services Agency. 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, the TennCare Transportation Program, and the Department of Finance and Administration, Division of Mental Retardation Services' Independent Support Coordination 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 for the state; and approving the Community Services Agencies' Plans of Operation (budgets).

## AUDIT FINDINGS

The audit report contains no findings.

# 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.

In September 2007, the Commissioner of the Department of Finance and Administration approved the merger between the Mid-Cumberland Community Services Agency and the Northwest Community Services Agency. In October 2007, the combined agencies were named the Mid-West Community Services Agency.

The Mid-Cumberland Community Services Agency served the following counties: Cheatham, Davidson, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices were in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency was the board of directors. As of September 30, 2007, the board was composed of six members. (See Appendix.) An executive committee, consisting of six 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 Health in 1991 and approved by the board. At that time, the agency’s name was Mid-Cumberland Community Health Agency.

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## AUDIT SCOPE

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We have audited the Mid-Cumberland Community Services Agency for the period July 1, 2006, through September 30, 2007. On October 1, 2007, Mid-Cumberland Community Services Agency merged with Northwest Community Services Agency to form Mid-West Community Services Agency. 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, the TennCare Transportation Program, and the Department of Finance and Administration, Division of Mental Retardation Services' Independent Support Coordination 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 for the state; and approving the Community Services Agencies' Plans of Operation (budgets).

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## PRIOR AUDIT FINDING

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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 March 1, 2007. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the Mid-Cumberland Community Services Agency has corrected the previous audit finding concerning the failure to promptly deposit cash receipts.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### CASH AND CASH RECEIPTS

Our objectives in reviewing cash and cash receipts controls and procedures at the agency were to determine whether

- bank reconciliations were accurate and performed promptly;
- 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 reviewed all operating bank account and Local Government Investment Pool (LGIP) account reconciliations completed during the months of July 2006 through September 2007 for proper approval and timeliness of completion. We also tested the September 2006 and October 2006 operating bank account and LGIP account reconciliations by agreeing all amounts to support. In addition, we obtained the cash receipts for July 1, 2006, through September 30, 2007. Our testwork on these cash receipts included selecting a sample and testing cash receipts we considered significant for proper posting to the accounting records and for timeliness of deposit in accordance with policy.

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

- bank reconciliations were performed promptly, and the reconciliations tested were properly completed, in all material respects;
- cash receipts were posted correctly to the accounting records; and
- the agency deposited funds promptly in accordance with policy.

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## **EXPENDITURES AND PROGRAM COMPLIANCE**

Our objectives in reviewing expenditures and program compliance controls and procedures at the agency were to determine whether

- the plans of operation and amendments were properly approved;
- expenditures for goods or services were properly approved and supported;
- goods or services were received prior to payment;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- TennCare Transportation carriers maintained the required liability insurance coverage throughout the audit period; and
- the agency properly billed the Division of Mental Retardation Services for client visits under the Independent Support Coordination Program.

To accomplish our objectives, we interviewed key agency personnel and observed internal controls to gain an understanding of procedures and controls over expenditures and program compliance requirements. We also reviewed written policies and procedures. We obtained and reviewed the agency's plans of operation and related amendments to determine the appropriateness of approvals. We obtained and reviewed the agency's check register and tested a nonstatistical sample of transactions from July 1, 2006, through September 30, 2007, to

determine that expenditures were approved and supported, and that the goods and services were received prior to payment. We tested a nonstatistical sample of the travel claims from July 1, 2006, through September 30, 2007, 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, 2006, through September 30, 2007.

We obtained certificates of liability insurance for all of the agency's TennCare Transportation vendors to determine whether they maintained the required liability insurance coverage from July 1, 2006, through January 31, 2007. We discussed procedures and controls over the Independent Support Coordination Program with staff. We also tested a nonstatistical sample of visits made to clients in the Independent Support Coordination Program during the period July 1, 2006, through January 31, 2007, by reviewing the case file to determine if the agency properly billed the Division of Mental Retardation Services for client visits.

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

- the plans of operation and amendments were properly approved;
- expenditures for goods or services were properly approved and supported, with minor exceptions noted;
- goods or services were received prior to payment;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- TennCare Transportation carriers maintained the required liability insurance coverage throughout the audit period, with a minor exception noted; and
- the agency properly billed the Division of Mental Retardation Services for client visits under the Independent Support Coordination Program, in all material respects.

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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 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.

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## **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, 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 also 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.

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## 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 a previous audit report, we reported that the board of directors of the agency appointed a four-member audit committee, the audit committee first met on July 6, 2005, and the audit committee charter was approved by the Comptroller of the Treasury on September 25, 2006. Also, in the previous audit report, we reported that the audit committee had reviewed the board and agency’s conflict-of-interest policies, which require conflict-of-interest forms to be completed annually. During the current audit period, the audit committee approved a code of conduct; ensured procedures were established for the reporting of complaints concerning accounting, internal controls, and auditing matters; and reviewed and approved management’s risk assessment along with the corresponding system of internal controls and process of monitoring compliance with laws and regulations.

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**APPENDIX**

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**MID-CUMBERLAND COMMUNITY SERVICES AGENCY**

Thomas D. McWherter, Interim Executive Director

**BOARD OF DIRECTORS**

**AND**

**EXECUTIVE COMMITTEE**

As of September 30, 2007

Mary Elaine Horne, Chair  
Martha Brooke Perry, Vice Chair  
Judy White, Treasurer  
Julie Mills, Secretary  
Barbara K. Swader  
Bettye McKinnon

Audit Committee

Judy White, Chair  
Martha Brooke Perry  
Julie Mills  
Mary Elaine Horne, Ex Officio