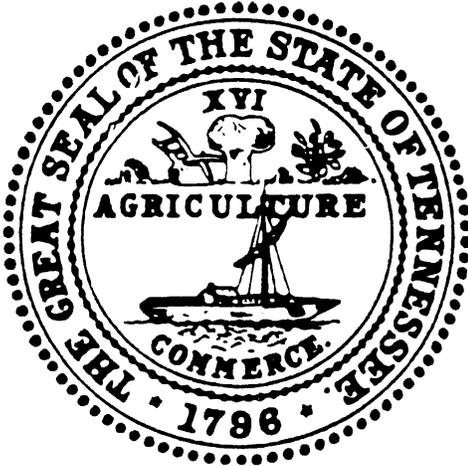


AUDIT REPORT

Southeast Community Services Agency

September 2007



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

September 27, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Southeast Community Services Agency
5600 Brainerd Road, Suite B-18
Chattanooga, Tennessee 37411

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Southeast Community Services Agency for the period June 1, 2006, through March 31, 2007.

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/ddm
07/082



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

SUITE 1500
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April 26, 2007

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 Southeast Community Services Agency for the period June 1, 2006, through March 31, 2007.

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 Southeast Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Southeast 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 resulted in no audit findings.

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

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

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
Southeast Community Services Agency
September 2007

AUDIT SCOPE

We have audited the Southeast Community Services Agency for the period June 1, 2006, through March 31, 2007. 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 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 COMMITTEE ACT OF 2005

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.

AUDIT COMMITTEE ESTABLISHED

In a previous audit report, we recommended that the Southeast Community Services Agency establish an audit committee. The board chair of the agency appointed a three-member committee in June 2005.

CHARTER APPROVED

The audit committee charter was approved by the Comptroller of the Treasury on July 12, 2006.

CODE OF CONDUCT AND CONFLICT-OF-INTEREST POLICY PRESENTED AND APPROVED

The audit committee approved the agency's code of conduct and the conflict-of-interest policy on May 9, 2006.

RISK ASSESSMENT TOOL PRESENTED AND APPROVED

The audit committee approved a risk assessment tool and evaluated the agency's system of internal controls on May 9, 2006. The completed risk assessment was submitted to the audit committee on February 20, 2007. At the end of audit field work on April 26, 2007, the audit committee had not met to approve the completed risk assessment.

AUDIT FINDINGS

The audit report contains no findings.

Financial and Compliance Audit Southeast Community Services Agency

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Financial and Compliance Audit Southeast Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Southeast 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 Southeast Community Services Agency serves the following counties: Bledsoe, Bradley, Franklin, Grundy, Marion, McMinn, Meigs, Polk, Rhea, and Sequatchie. The agency’s administrative offices are in Chattanooga, Tennessee.

The governing body of the Southeast Community Services Agency is the board of directors. As of March 31, 2007, the board was composed of seven members. (See Appendix.) An executive committee, consisting of four board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the Executive Director, who is appointed by the Commissioner of the Department of Finance and Administration, subject to the approval of the board.

AUDIT SCOPE

We have audited the Southeast Community Services Agency for the period June 1, 2006, through March 31, 2007. 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 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).

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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 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 reviewed all operating bank account and Local Government Investment Pool (LGIP) account reconciliations completed during the months of June 2006 through March 2007 for proper approval and timeliness of completion. We also tested the October 2006 and December 2006 operating bank account and LGIP account reconciliations by agreeing all amounts to support. In addition, we obtained the cash receipts for the audit period 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, observations, and testwork performed, we determined that

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

EXPENDITURES AND PROGRAM COMPLIANCE

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

- the plan 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;
- the agency's purchases made with credit cards were properly approved and supported;
- TennCare Transportation carriers maintained the required liability insurance coverage throughout the audit period; and
- the agency's billings under the Independent Support Coordination Program were supported by documented visits per the case files.

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 the plan 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 June 1, 2006, through February 23, 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 June 1, 2006, through March 16, 2007, to determine whether claims were paid in accordance with travel regulations. We also tested all of the Executive Director's travel claims from June 1, 2006, through February 9, 2007.

We discussed policies and procedures for credit card purchases and tested all credit card purchases made during the audit period to determine the purchases were approved and supported. We obtained certificates of liability insurance for all of the agency's TennCare Transportation vendors to determine whether the vendors maintained the required liability insurance coverage throughout the audit period. 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 audit period by reviewing the case files to determine if the agency's billings were supported.

As a result of interviews, observations, 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 only a minor exception noted;
- goods or services were received prior to payment;
- in all material respects, expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- the agency's purchases made with credit cards were approved and supported;
- in all material respects, TennCare Transportation carriers maintained the required liability insurance coverage throughout the audit period; and
- the agency's billings under the Independent Support Coordination Program were supported by documented visits per the case files.

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, *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 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:

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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 recommended that the Southeast Community Services Agency establish an audit committee. The board chair of the agency appointed a three-member committee in June 2005. The audit committee charter was approved by the Comptroller of the Treasury on July 12, 2006. The audit committee approved the agency's code of conduct and the conflict-of-interest policy on May 9, 2006. The audit committee approved a risk assessment tool and evaluated the agency's system of internal controls on May 9, 2006. The completed risk assessment was submitted to the audit committee on February 20, 2007. At the end of audit field work on April 26, 2007, the audit committee had not met to approve the completed risk assessment.

APPENDIX

SOUTHEAST COMMUNITY SERVICES AGENCY

Paul Lynch, Executive Director

BOARD OF DIRECTORS

As of March 31, 2007

Executive Committee Members

Mr. Gerald J. Layne, Sr., Chair
Mr. Jay Hacker, Jr., Vice-Chair
Ms. Susan Trotter, Treasurer
Ms. Eva Edwards, Secretary

Other Members of the Board of Directors

Ms. Matilda G. Dunn
Mr. Ken Emel
Mr. Walter Hunt

Audit Committee

Mr. Jay Hacker, Jr., Chair
Mr. Walter Hunt
Ms. Susan Trotter