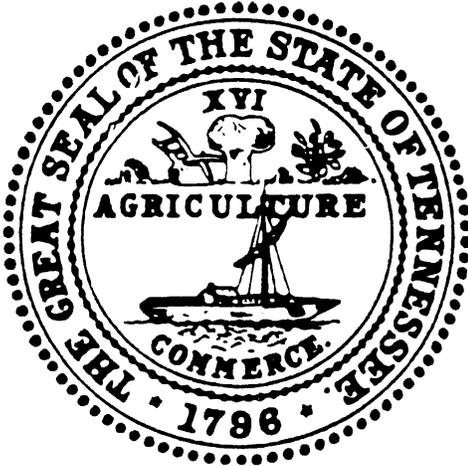


# AUDIT REPORT

Upper Cumberland Community Services Agency

July 2007



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Edward Burr, CPA***  
Assistant Director

***Robert D. Hunter, Jr., CPA***  
Audit Manager

***Valerie Petty, CFE***  
In-Charge Auditor

***Sharon Crowell***  
Staff Auditor

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).

For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

July 9, 2007

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Upper Cumberland Community Services Agency  
1000 England Drive, Suite F  
Cookeville, TN 38501

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Upper Cumberland Community Services Agency for the period June 1, 2006, through April 30, 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/sds  
07/093



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

**SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

May 21, 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 Upper Cumberland Community Services Agency for the period June 1, 2006, through April 30, 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 Upper Cumberland Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Upper 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 resulted in no audit findings.

We have reported a less significant matter involving the agency's internal control to the Upper Cumberland Community Services Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/sds

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Upper Cumberland Community Services Agency**  
July 2007

---

## AUDIT SCOPE

We have audited the Upper Cumberland Community Services Agency for the period June 1, 2006, through April 30, 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 receipts and bank reconciliations; and expenditures and compliance with the Individual Support Coordination program as funded by the State of Tennessee Department of Finance and Administration. 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 Upper Cumberland Community Services Agency

---

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	1
<b>PRIOR AUDIT FINDINGS</b>	2
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	2
Cash Receipts and Bank Reconciliations	2
Expenditures and Program Compliance	3
<b>OBSERVATIONS AND COMMENTS</b>	4
Management's Responsibility for Risk Assessment	4
Fraud Considerations	5
Audit Committee	6
<b>APPENDIX</b>	7
Board of Directors	7

# **Financial and Compliance Audit Upper Cumberland Community Services Agency**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Upper 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 Upper Cumberland Community Services Agency serves the following counties: Cannon, Clay, Cumberland, Dekalb, Fentress, Jackson, Macon, Overton, Pickett, Putnam, Smith, Van Buren, Warren, and White. The agency’s administrative offices are in Cookeville, Tennessee.

The governing body of the Upper Cumberland Community Services Agency is the board of directors. As of April 30, 2007, the board was composed of ten members. (See Appendix.) An executive committee, consisting of three 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 was appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

---

## **AUDIT SCOPE**

---

We have audited the Upper Cumberland Community Services Agency for the period June 1, 2006, through April 30, 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 receipts and bank reconciliations; and expenditures and compliance with the Individual Support Coordination program as funded by the State of Tennessee Department of Finance and Administration. 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**

---

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 Upper Cumberland Community Services Agency filed its report with the Department of Audit on March 28, 2007. A follow-up of all prior audit findings was conducted as part of the current audit. The current audit disclosed that the Upper Cumberland Community Services Agency has corrected previous audit findings concerning noncompliance with case management policies for noncustodial children and weak internal controls contributing to an overbilling of the agency.

---

## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

---

### **CASH RECEIPTS AND BANK RECONCILIATIONS**

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

- the design of the agency's controls over cash receipts and bank reconciliations was adequate;
- cash receipts were deposited timely in accordance with policy;
- receipts were posted correctly to the accounting records;
- revenues for the Individual Support Coordination program were supported by staff visits as documented in case files; and

- bank reconciliations were accurate, performed promptly, and approved in accordance with agency policy.

To accomplish our objectives, we interviewed management to gain an understanding of the agency's procedures and controls over cash receipts and bank reconciliations. We obtained the cash receipts for June 1, 2006, through April 30, 2007, and tested a nonstatistical sample of cash receipts for proper posting to the accounting records, and for timeliness of deposit. We obtained a listing of billings for Individual Support Coordination program clients from June 2006 through April 2007 and examined the supporting case files, the amount billed, and the related revenue posting to the bank account and general ledger for propriety. We also obtained and reviewed the Local Government Investment Pool statements, the bank statements, and the related reconciliations from June 2006 through April 2007.

As a result of our inquiries, observations, and testwork, we concluded that

- the design of the agency's controls over cash receipts and bank reconciliations appeared adequate;
- cash receipts were deposited timely;
- receipts were posted correctly to the accounting records;
- revenues recorded for the Individual Support Coordination program were accurate and supported by case files; and
- the Local Government Investment Pool and bank reconciliations from June 2006 through April 2007 were accurate, performed promptly, and approved in accordance with agency policy.

---

## **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;
- expenditures for goods or services were properly approved, supported, and allowable per CSA purchasing procedures and relevant contracts;
- a vendor contract was in place when required and contract guidelines were followed;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;

- the agency’s policies and procedures for credit cards were adequate and purchases involving credit cards were appropriate; and
- TennCare transportation vendors complied with liability insurance regulations.

To accomplish our objectives, we interviewed key agency personnel to gain an understanding of procedures and controls over expenditures; program compliance requirements; and credit cards. We also reviewed written policies and procedures. We obtained the plan of operation and related amendments and determined the appropriateness of approvals. A nonstatistical sample of expenditures transactions, excluding payroll and travel, was selected to determine that expenditures were approved, supported, and allowable. In addition, we obtained relevant vendor contracts and determined that contract guidelines were followed. We tested all of the Executive Director’s travel claims and a nonstatistical sample of other travel claims to determine whether claims were paid in accordance with travel regulations. We tested all credit card purchases for the period of June 1, 2006, through April 30, 2007, to determine whether purchases involving credit cards were appropriate.

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

- the design of controls over expenditures and program compliance was adequate;
- the plan of operation and related amendments were properly approved;
- expenditures for goods or services were properly approved, supported, and allowable per CSA purchasing procedures and relevant contracts;
- a vendor contract was in place when required and contract guidelines were followed;
- expenditures for travel were paid in accordance with the travel regulations;
- the agency’s policies and procedures for credit cards were adequate and purchases involving credit cards were appropriate; and
- TennCare transportation vendors complied with liability insurance regulations.

---

## **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 controls 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:

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.

The board of directors of the CSA appointed a three-member committee on September 20, 2004. The audit committee charter was approved by the Comptroller of the Treasury on July 10, 2006. Additionally, the audit committee approved a written code of conduct and a new conflict-of-interest statement for the agency and provided copies of each to agency management and staff. As of May 21, 2007, the audit committee had not yet approved, nor had management completed, a formal, written risk assessment.

---

**APPENDIX**

---

**UPPER CUMBERLAND COMMUNITY SERVICES AGENCY**

Sue Pilson, Executive Director

**BOARD OF DIRECTORS**

As of April 30, 2007

Delores Turnbull, Chair  
W. Howard Groce, Vice-Chair  
Linda McCrary, Secretary/Treasurer  
Glennis Bassi  
Carolyn Fox  
Lillian Bailey-Fox  
Jerry Futrell  
Joyce Grissom  
Anna Ruth Locke  
Billie D. Williams

Executive Committee

Delores Turnbull, Chair  
W. Howard Groce, Vice-Chair  
Linda McCrary, Secretary/Treasurer

Audit Committee

W. Howard Groce, Chair  
Glennis Bassi  
Linda McCrary