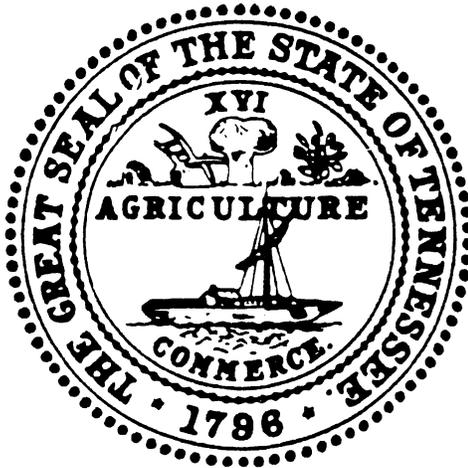


AUDIT REPORT

Memphis and Shelby County 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 25, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Memphis and Shelby County Community Services Agency
1407 Union Avenue, Suite 1300
Memphis, Tennessee 38104

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Memphis and Shelby County Community Services Agency for the period April 1, 2006, through July 9, 2007.

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

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/to
07/109



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

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August 2, 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 Memphis and Shelby County Community Services Agency for the period April 1, 2006, through July 9, 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 Memphis and Shelby County Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Memphis and Shelby County 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 Memphis and Shelby County Community Services Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/to

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Memphis and Shelby County Community Services Agency
September 2007

AUDIT SCOPE

We have audited the Memphis and Shelby County Community Services Agency for the period April 1, 2006, through July 9, 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 and cash receipts, and expenditures. 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 the 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 investigation 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 AND FUNCTIONING

In a previous audit report, we reported that the Memphis and Shelby County Community Services Agency established an audit committee. The board of the CSA appointed a four-member committee on December 21, 2005. The audit committee charter was approved by the Comptroller of the Treasury on May 8, 2006. Additionally, the audit committee approved new conflict-of-interest statements for the agency, provided copies to agency management and staff, and has evaluated management's assessment of risk and the agency's system of internal controls.

AUDIT FINDINGS

The audit report contains no findings.

**Financial and Compliance Audit
Memphis and Shelby County Community Services Agency**

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Financial and Compliance Audit Memphis and Shelby County Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Memphis and Shelby County 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 Memphis and Shelby County Community Services Agency serves Shelby County. The agency’s administrative offices are in Memphis, Tennessee.

The governing body of the Memphis and Shelby County Community Services Agency is the board of directors. As of July 9, 2007, the board was composed of 11 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 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 Memphis and Shelby County Community Services Agency for the period April 1, 2006, through July 9, 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 and cash receipts, and expenditures. 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 FINDING

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 Memphis and Shelby Community Services Agency filed its report with the Department of Audit on September 5, 2007. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the Memphis and Shelby County Community Services Agency has corrected the previous audit finding concerning the bank statement reconciliations not being properly prepared.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

CASH AND CASH RECEIPTS

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

- cash receipts were posted correctly in the accounting records;
- the agency deposited funds promptly in accordance with policy;
- the agency petty cash fund could be accounted for; and
- bank reconciliations were accurate and performed promptly.

To accomplish our objectives, we interviewed management to gain an understanding of the agency's procedures and controls for bank reconciliations and cash receipts. We obtained the cash receipts for April 1, 2006, through May 31, 2007, and tested a nonstatistical sample of cash receipts for proper posting to the accounting records and for timeliness of deposit in accordance with policy. We performed a surprise petty cash count. We also obtained and reviewed all of the bank statements and bank reconciliations for April 2006 through June 2007 to ensure that bank

reconciliations were performed promptly. We performed detailed testwork on the March 2007 bank reconciliation to ensure its accuracy.

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

- cash receipts were posted correctly to the accounting records and were deposited timely, with only minor exceptions;
- the agency's petty cash fund could be accounted for; and
- bank reconciliations were performed promptly, and the reconciliation tested was accurate.

EXPENDITURES

Our primary objectives for expenditures were to determine whether

- expenditures for goods or services were properly approved and supported;
- goods were received prior to payment;
- expenditures for travel were paid in accordance with travel regulations;
- purchases involving credit cards were appropriate; and
- the agency's plan of operation and amendments were properly approved.

To accomplish our objectives, we interviewed key agency personnel to gain an understanding of procedures and controls over expenditures. We also reviewed written policies and procedures. We obtained the agency's check register for April 1, 2006, through June 29, 2007, and tested a nonstatistical sample of expenditures to determine if expenditures were adequately approved and supported, and that goods were received prior to payment. We tested a nonstatistical sample of travel expenditures to determine if travel claims were in compliance with travel regulations. We also tested all Executive Director travel claim expenditures for compliance with travel regulations. We discussed policies and procedures for credit card purchases with staff and reviewed all credit card purchases for appropriateness. We obtained the plan of operation and related amendments to determine the appropriateness of approvals.

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

- expenditures for goods or services were properly approved and supported, with minor exceptions;
- goods were received prior to payment;
- expenditures for travel were paid in accordance with travel regulations;
- purchases involving credit cards were appropriate; and

- the plans of operation and related amendments were properly approved.

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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conflict-of-interest statements for the agency, provided copies to agency management and staff, and has evaluated management's assessment of risk and the agency's system of internal controls.

APPENDIX

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY

Susan Adams, Executive Director

BOARD OF DIRECTORS

Board Officers

Gwendolyn Wright, Chair
Rieta Selberg, Vice-Chair
Betsy Black, Secretary
Pat Morgan, Treasurer

Executive Committee Members

Gwendolyn Wright, Chair
Rieta Selberg, Vice-Chair
Betsy Black, Secretary
Pat Morgan, Treasurer

Audit Committee

Pat Morgan, Chair
Betsy Black
Rieta Selberg
Gwendolyn Wright

Other Members of the Board of Directors

Veronica Colliman-Davis
Randi Guigui
Sara Lewis
Cynthia Nunnally
Carolyn Tisdale
Donald Voth