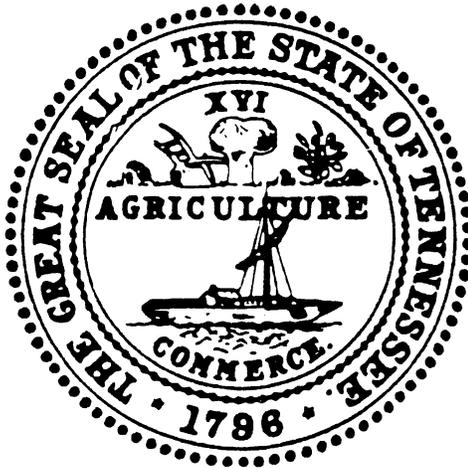


AUDIT REPORT

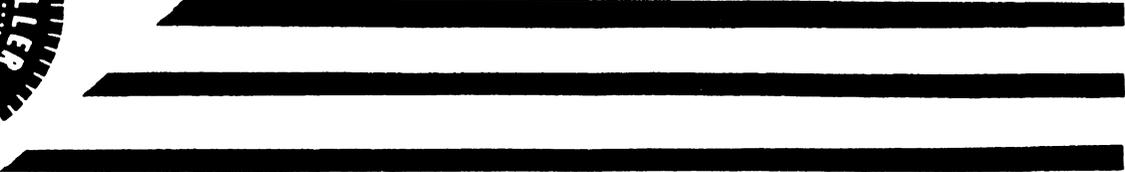
Southwest Community Services Agency

April 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

April 22, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Southwest Community Services Agency
6 Stonebridge Boulevard, Suite G
Jackson, Tennessee 38305

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Southwest Community Services Agency (which included the agency formerly known as the South Central Community Services Agency) for the period February 1, 2007, through December 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,

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

John G. Morgan
Comptroller of the Treasury

JGM/ddm
08/048



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
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January 24, 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 Southwest Community Services Agency (which included the agency formerly known as the South Central Community Services Agency) for the period February 1, 2007, through December 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 Southwest Community Services Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Southwest 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 to the Southwest Community Services Agency's management in a separate letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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
Southwest Community Services Agency
April 2008

AUDIT SCOPE

We have audited the Southwest Community Services Agency (which included the agency formerly known as the South Central Community Services Agency) for the period February 1, 2007, through December 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 the WorkFirst and Families First Programs. 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).

Financial and Compliance Audit Southwest Community Services Agency

TABLE OF CONTENTS

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

Financial and Compliance Audit Southwest Community Services Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Southwest 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 Southwest Community Services Agency and the South Central Community Services Agency. In October 2007, the combined agencies were named the Southwest Community Services Agency.

The Southwest Community Services Agency serves the following counties: Bedford, Chester, Coffee, Decatur, Fayette, Giles, Hardeman, Hardin, Haywood, Henderson, Hickman, Lauderdale, Lawrence, Lewis, Lincoln, Madison, Marshall, Maury, McNairy, Moore, Perry, Tipton, and Wayne. The agency’s administrative offices are in Columbia and Jackson, Tennessee.

The governing body of the Southwest Community Services Agency is the board of directors. As of December 31, 2007, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of the chair, vice chair, and treasurer, 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 Finance and Administration, subject to the approval of the board.

AUDIT SCOPE

We have audited the Southwest Community Services Agency for the period February 1, 2007, through December 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 the WorkFirst and Families First Programs. 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 February 2007 through November 2007 for proper approval and timeliness of completion. We

also tested the June 2007 operating bank account and LGIP account reconciliations by agreeing all amounts to support. In addition, we obtained the cash receipts for February 1, 2007, through November 30, 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.

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

- bank reconciliations were performed promptly, and the reconciliations tested were properly completed,
- 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 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;
- the agency's purchases made with credit cards were properly approved and supported; and
- the agency's billings under the WorkFirst and Families First Programs were for allowable services and within the limits established by the applicable program contract.

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 February 1, 2007, through December 10, 2007, to determine if expenditures were approved and supported, and that the goods and services were received prior to payment. We tested a nonstatistical sample of travel claims from February 1, 2007, through December 6, 2007, to determine whether claims were paid in accordance with the Comprehensive Travel Regulations. We also tested all of the Executive Director's travel claims from February 1, 2007, through December 6, 2007.

We discussed policies and procedures for credit card purchases with staff. We tested a nonstatistical sample of credit card purchases from February 1, 2007, through December 17, 2007, to determine whether the purchases were approved and supported. We discussed procedures and controls over the WorkFirst and Families First Programs with staff. We also tested a nonstatistical sample of expenditures relating to each program to determine if the agency's billings under the WorkFirst and Families First programs were for allowable services and within the limits established by the applicable program contract.

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;
- goods or services were received prior to payment;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations with only a minor exception noted;
- the agency's purchases made with credit cards were approved and supported; and
- the agency's billings under the WorkFirst and Families First Programs were for allowable services and within the limits established by the applicable program contract.

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.

APPENDIX

SOUTHWEST COMMUNITY SERVICES AGENCY

Don Patterson, Executive Director

BOARD OF DIRECTORS

As of December 31, 2007

Executive Committee Members

Robin Powers, Chair
Deborah Jenkins, Vice-Chair
Dr. Spurgeon Smith, Secretary/Treasurer

Other Members of the Board of Directors

Timothy Armstrong
Sarah Black
Linda Crouch
Charlotte Gammill
Vanessa Brown Holmberg
Jack Keny
Sumika Looney
Vijayashree K. Reddy
Molly Shepard
Marcia Vanattia

Audit Committee

Dr. Spurgeon Smith, Chair
Robin Powers
Deborah Jenkins