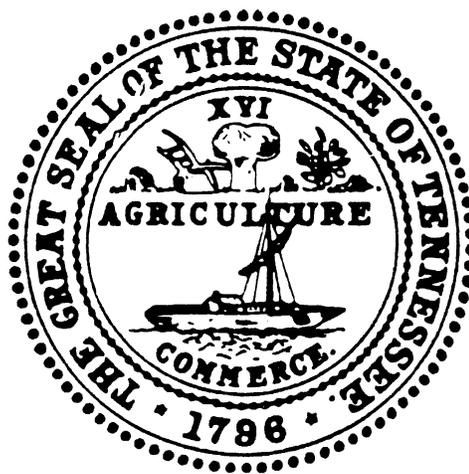


AUDIT REPORT

Southeast Community Services Agency

July 2008



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

Derek Martin, CPA, CFE
Audit Manager

Sam Alzoubi
In-Charge Auditor

Dennis Blackmon, CFE
Jeremy Hunter
Staff Auditors

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.

For more information about the Comptroller of the Treasury, please visit our website at
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 15, 2008

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 (which included the agency formerly known as the Upper Cumberland Community Services Agency) for the period April 1, 2007, through April 30, 2008.

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
08/057



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 30, 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 Southeast Community Services Agency (which included the agency formerly known as the Upper Cumberland Community Services Agency) for the period April 1, 2007, through April 30, 2008.

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,

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
July 2008

AUDIT SCOPE

We have audited the Southeast Community Services Agency (which included the agency formerly known as the Upper Cumberland Community Services Agency) for the period April 1, 2007, through April 30, 2008. 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 Families First 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 Southeast 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	5
Management's Responsibility for Risk Assessment	5
Fraud Considerations	5
APPENDIX	7
Board of Directors	7

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.

In November 2007, the Commissioner of the Department of Finance and Administration approved the merger between the Southeast Community Services Agency and the Upper Cumberland Community Services Agency. In January 2008, the combined agencies were named the Southeast Community Services Agency.

The Southeast Community Services Agency serves the following counties: Bledsoe, Bradley, Cannon, Clay, Cumberland, DeKalb, Fentress, Franklin, Grundy, Hamilton, Jackson, Macon, Marion, McMinn, Meigs, Overton, Pickett, Polk, Putnam, Rhea, Sequatchie, Smith, Van Buren, Warren, and White. The agency’s administrative offices are located in Chattanooga and Cookeville, Tennessee.

The governing body of the Southeast Community Services Agency is the board of directors. As of April 30, 2008, the board was composed of 17 members. (See Appendix.) An executive committee, consisting of the chair, vice chair, treasurer, and secretary, 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 Southeast Community Services Agency for the period April 1, 2007, through April 30, 2008. 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 Families First 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 and payroll bank account and Local Government Investment Pool (LGIP) account reconciliations completed during the months of April 2007 through January 2008 for proper approval and timeliness of completion. We also

tested the November 2007 operating bank account and LGIP account reconciliations by agreeing all amounts to support. In addition, we obtained the cash receipts for April 1, 2007, through March 16, 2008, 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, in all material respects;
- cash receipts were posted correctly to the accounting records; and
- the agency deposited funds promptly in accordance with policy, with minor exceptions noted.

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, supported, within the individual purchase dollar limit, and appeared reasonable and necessary for conducting the agency's business;
- the agency properly billed the Division of Mental Retardation Services for client visits under the Independent Support Coordination Program; and
- payments made by the agency under the Families First Program were properly approved, supported, for allowable services, and within the limits established by the 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 April 1, 2007, through February 28, 2008, 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 April 1, 2007, through

February 29, 2008, 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 April 1, 2007, through January 31, 2008.

We discussed policies and procedures for credit card purchases with staff. We tested all credit card purchases from April 1, 2007, through January 31, 2008, for the Chattanooga office and credit card purchases made in November 2007 for the Cookeville office to determine whether the purchases were properly approved, supported, within the individual purchase dollar limit, and appeared reasonable and necessary for conducting the agency's business. We discussed procedures and controls over the Independent Support Coordination and Families First Programs with staff. We also tested a nonstatistical sample of visits made to clients in the Independent Support Coordination Program during the period April 2007 through February 2008 by reviewing the case file to determine if the agency properly billed the Division of Mental Retardation Services for client visits. In addition, we tested all payments made by the agency under the Families First Program during the period April 1, 2007, through February 1, 2008, to determine if the payments were properly approved, supported, for allowable services, and within the limits established by the 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, in all material respects;
- the agency's purchases made with credit cards were properly approved, supported, within the individual purchase dollar limit, and appeared reasonable and necessary for conducting the agency's business;
- the agency properly billed the Division of Mental Retardation Services for client visits under the Independent Support Coordination Program; and
- payments made by the agency under the Families First Program were properly approved, supported, for allowable services, and within the limits established by the 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

SOUTHEAST COMMUNITY SERVICES AGENCY

Paul Lynch, Executive Director*

BOARD OF DIRECTORS

As of April 30, 2008

Executive Committee Members

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

Audit Committee

Jay Hacker, Jr., Chair
Walter Hunt
Susan Trotter

Other Members of the Board of Directors

Lillian Bailey-Fox
Glennis Bassi
Matilda G. Dunn
Ken Emel
Carolyn Fox
Jerry Futrell
Joyce Grissom
W. Howard Groce
Linda McCrary
Anna Napier-Locke
Delores Turnbull
Billie D. Williams

* Don Patterson was appointed Interim Executive Director of the agency on May 9, 2008.