

# AUDIT REPORT

Mid-West Community Services Agency

January 2009



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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STATE OF TENNESSEE  
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January 27, 2009

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Mid-West Community Services Agency  
1604 Reelfoot Avenue  
Union City, Tennessee 38261

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Mid-West Community Services Agency for the period April 1, 2007, through April 30, 2008.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Management of the Mid-West 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 Mid-West Community Services Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/ajm  
08/072

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Mid-West Community Services Agency**  
January 2009

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## **AUDIT SCOPE**

We have audited the Mid-West 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 and cash receipts and expenditures. The audit was conducted in accordance with generally accepted government auditing standards.

## **AUDIT FINDINGS**

The audit report contains no findings.

# Financial and Compliance Audit Mid-West Community Services Agency

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# **Financial and Compliance Audit Mid-West Community Services Agency**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Mid-West 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 Commissioner of the Department of Finance and Administration merged the Mid-Cumberland Community Services Agency and the Northwest Community Services Agency, to form the Mid-West Community Services Agency beginning October 1, 2007.

The Mid-West Community Services Agency serves the following counties: Benton, Carroll, Crockett, Dyer, Gibson, Henry, Lake, Obion, Weakley, Cheatham, Davidson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Trousdale, Williamson, Wilson, and Sumner. The agency’s administrative offices are in Union City, Tennessee.

The governing body of the Mid-West Community Services Agency is the board of directors. The board of directors consists of ten board members. 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 is appointed by the Commissioner of the Department of Finance and Administration, subject to the approval of the board.

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## **AUDIT SCOPE**

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We have audited the Mid-West 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 and cash receipts and expenditures. The audit was conducted in accordance with generally accepted government auditing standards.

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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

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### **CASH AND CASH RECEIPTS**

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

- cash receipts were posted correctly to the accounting records;
- the agency deposited funds promptly in accordance with policy; and
- bank reconciliations were prepared and reviewed timely for all accounts, and that the book and bank balances on the reconciliation agreed to the general ledger and bank statement.

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, 2007, through April 14, 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. We also obtained and reviewed bank statements and bank reconciliations for March 2007 through April 2008 to ensure that bank reconciliations were prepared and reviewed timely for all accounts, and that the book and bank balances on the reconciliation agreed to the general ledger and bank statement.

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

- cash receipts were posted correctly to the accounting records;
- the agency deposited funds promptly in accordance with policy; and
- with some exceptions, bank reconciliations were prepared and reviewed timely for all accounts, and that the book and bank balances on the reconciliation agreed to the general ledger and bank statement.

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## **EXPENDITURES**

The primary objectives of our review of expenditures were to determine whether

- expenditures for goods or services were properly approved and supported;
- goods were received prior to payment;
- purchasing procedures were followed in the procurement of goods and services;
- expenditures for travel were adequately supported, properly approved, and paid in accordance with the Comprehensive Travel Regulations;
- the agency's policies and procedures for credit cards were followed, and purchases involving credit cards were appropriate and were properly approved prior to payment; 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 and tested a nonstatistical sample of expenditures to determine if expenditures were adequately approved and supported, that goods were received prior to payment, and purchasing procedures were followed in the procurement of goods and services. We tested a nonstatistical sample of travel expenditures to determine that travel claims were in compliance with Comprehensive Travel Regulations. We also tested all Executive Director travel claim expenditures for compliance with Comprehensive Travel Regulations. We discussed with staff policies and procedures for credit card purchases and reviewed all credit card purchases to ensure that all purchases were in compliance with the agency's policies and procedures and were properly approved prior to payment. 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;
- goods were received prior to payment;

- purchasing procedures were followed in the procurement of goods and services;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- the agency's policies and procedures for credit cards were followed, and purchases were appropriate and properly approved prior to payment, with minor exceptions; and
- the plan of operation and related amendments were properly approved.

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## **OBSERVATIONS AND COMMENTS**

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### **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:

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 officially nominated and approved the three members of the audit committee in March 2008. The CSA audit committee approved an audit committee charter on May 2008 and obtained approval of this audit committee charter on August 5, 2008. The audit committee has reviewed a new code of conduct for the agency and provided copies of each to agency management and staff. Additionally, the audit committee approved a letter sent to all agency employees outlining their responsibility as agency employees to prevent fraud, waste, and abuse. At the end of field work on May 22, 2008, the audit committee had approved a fraud risk assessment document, but had not received management's assessment of risk and had not evaluated the agency's corresponding system of internal controls.

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**APPENDIX**

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**MID-WEST COMMUNITY SERVICES AGENCY**

Thomas D. McWherter, Executive Director

EXECUTIVE COMMITTEE

Mike Draper, Chairperson  
Julie C. Mills, Vice-Chairperson  
Ellarine Moses, Treasurer/Secretary

NOMINATING COMMITTEE

Charles Breeding, Chairperson  
Sammy Copeland  
Judy White  
Martha Brooke Perry

AUDIT COMMITTEE

Judy White, Chairperson  
Charles Breeding  
Mike Draper

OTHER BOARD MEMBERS

Bob Duncan  
Mary-Elaine Horn  
Randy Hatch