AUDIT REPORT

Memphis and Shelby County Community Services Agency

August 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
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John G. Morgan
Comptroller

August 7, 2008

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 July 10, 2007, through May 31, 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/ajm
08/085

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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June 3, 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 Memphis and Shelby County Community Services Agency for the period July 10, 2007, through May 31, 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 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 a less significant matter involving the agency's internal control to the Memphis and Shelby County Community Services Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Memphis and Shelby County Community Services Agency
August 2008

AUDIT SCOPE

We have audited the Memphis and Shelby County Community Services Agency for the period July 10, 2007, through May 31, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The audit report contains no findings.

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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. Memphis and Shelby County Community Services Agency also does business as Memphis Area Community Solutions.

The governing body of the Memphis and Shelby County Community Services Agency is the board of directors. As of June 3, 2008, the board was composed of 10 members. (See Appendix.) An executive committee, consisting of five 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 July 10, 2007, through May 31, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

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 to the accounting records;
- the agency deposited funds promptly in accordance with agency policy;
- bank reconciliations were prepared and approved timely for all accounts, and all reconciling items were proper; and
- the agency petty cash fund could be accounted for.

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 July 10, 2007, through May 31, 2008, and tested a nonstatistical sample of cash receipts for proper posting to the accounting records and for timeliness of deposit in accordance with agency policy. We obtained and reviewed all bank statements and bank reconciliations for July 2007 through April 2008 to ensure that bank reconciliations were prepared and approved timely for all accounts. We performed detailed testwork on the February 2008 bank reconciliations to ensure that reconciling items were proper. We also performed a surprise count of the agency's petty cash fund.

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;

- bank reconciliations were prepared and approved timely, and all reconciling items examined were proper; and
- the agency's petty cash fund could be accounted for.

EXPENDITURES

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

- expenditures for goods or services were properly approved and supported;
- goods and services 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 appeared 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 from July 1, 2007, through May 19, 2008, and tested a nonstatistical sample of expenditures to determine if expenditures were properly approved and supported, that goods and services 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 for the period July 10, 2007, through May 31, 2008, to determine that travel claims were adequately supported, properly approved, and were paid in compliance with the Comprehensive Travel Regulations. We also tested all of the Executive Director's travel claim expenditures for compliance with the Comprehensive Travel Regulations. We discussed with staff policies and procedures for credit card purchases and reviewed all credit card purchases for appropriateness and to ensure that all purchases were in compliance with the agency's policies and procedures for credit card transactions. 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 and services 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 appeared appropriate; and
- the plan 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 also 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

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY

Susan Adams, Executive Director

EXECUTIVE COMMITTEE

Rieta Selberg, Chair
Pat Morgan, Vice-Chair
Cynthia Nunnally, Secretary
Donald Voth, Treasurer
Gwendolyn Wright

AUDIT COMMITTEE

Donald Voth, Chair
Cheryl Beard
Pat Morgan
Gwendolyn Wright

OTHER BOARD MEMBERS

Betsy Black
Veronica Coleman-Davis
Sara Lewis
Carolyn Tisdale