FIRST TENNESSEE COMMUNITY SERVICES AGENCY
(FORMERLY FIRST TENNESSEE COMMUNITY HEALTH AGENCY)

FOR THE YEAR ENDED
JUNE 30, 1996

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Editor

May 16, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
First Tennessee Community Services Agency
Johnson City, Tennessee 37605

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the First Tennessee Community Services Agency, formerly the First Tennessee Community Health Agency, for the year ended June 30, 1996. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit Section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/sdr
96/135

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
First Tennessee Community Services Agency
For the Year Ended June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control structure; to determine the fairness of the presentation of the financial statements; to determine compliance with laws, regulations, contracts, and grants; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDING

Noncompliance With Program Guidelines and State Laws*
The agency has not ensured that the Assessment and Care Coordination Team has fully complied with program guidelines and state laws concerning children who are committed to the state's care or who are at imminent risk of entering state custody (page 7).

* This finding is repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
FIRST TENNESSEE COMMUNITY SERVICES AGENCY
FOR THE YEAR ENDED JUNE 30, 1996

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INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the First Tennessee 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."

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine the fairness of the presentation of the financial statements;
3. to determine compliance with laws, regulations, contracts, and grants; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. The First Tennessee Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

Tennessee's 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, legislation known as the Community Services Agency Act of 1996 replaced the community health agencies with 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 First Tennessee Community Services Agency was established in November 1989 and comprises the following eight counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, and Washington. The agency's administrative offices are in Johnson City, Tennessee.

ORGANIZATION

The governing body of the First Tennessee Community Services Agency is the board of directors. As of June 30, 1996, the board was composed of eight 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 a staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children's Services subject to the approval of the board.

OBSERVATIONS AND COMMENTS

During the audit period, the First Tennessee Community Services Agency entered into a contract with the Department of Health. The contract specified the programs the agency would operate which included the Community Development Program; Children's Special Services Care

Coordination Program; Family Planning; Maternal and Child Health Programs including Prenatal Care, Project HUG, and Women, Infants, and Children (WIC); Communicable Disease Programs including Immunization, Tuberculosis Control, Sexually Transmitted Diseases (STD) and AIDS; and Health Promotion/Disease Control programs including Preventive Dental, Nutrition Education and Adolescent Pregnancy Initiatives.

The Department of Health informed the Community Services Agencies (CSAs) in November 1995 that all existing Community Development Program staff and equipment would be transitioned to the department's regional offices. Filled positions would move to the regional offices as soon as space was available. For vacant positions, the CSAs were responsible for posting the position and the Department of Health's regional directors would interview and make recommendations to hire. The regional directors would be responsible for supervising all Community Development staff and for operating the program.

For all other programs mentioned above, the Department of Health selected the personnel to be hired and set the salary schedules. Those hired under the contract for these programs also worked in the counties or regional health office and were supervised by Department of Health employees.

The salaries for all employees hired through the First Tennessee Community Services Agency, travel costs, and other program costs were paid by agency checks. The Department of Health reimbursed the agency for costs incurred under the contract. Included in the reimbursement were the agency's administrative costs for serving as a fiscal agent.

The Attorney General has previously advised that contracts of this type are unauthorized. The contracts with the First Tennessee Community Services Agency and other agencies serving the Department of Health were also noted in the most recent audit report on the department.

PRIOR AUDIT FINDINGS

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 First Tennessee Community Services Agency, formerly the First Tennessee Community Health Agency, filed its report with the Department of Audit on May 9, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding concerning compliance with Assessment and Care Coordination Team (ACCT) guidelines. During the year ended June 30, 1996, the agency implemented procedures that improved compliance in some areas. However, the agency still did not comply with all the guidelines. This finding has not been resolved and is repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the agency's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the First Tennessee Community Services Agency. In our opinion, the statements included in this report present fairly, in all material respects, the agency's financial position as of June 30, 1996, and the results of its operations for the year then ended. The independent auditor's report follows the compliance report.

Compliance with Laws and Regulations

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. Immaterial instance of noncompliance, along with the recommendation and management's response, are included in the finding and recommendation. The compliance report follows the finding and recommendation.

Report on the Internal Control Structure
Based on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards*

November 8, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the First Tennessee Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated November 8, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The agency's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the agency's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the agency's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

FINDING AND RECOMMENDATION

THE AGENCY SHOULD CONTINUE TO IMPROVE COMPLIANCE WITH ASSESSMENT AND CARE COORDINATION TEAM GUIDELINES

FINDING:

As noted in the prior audit, the First Tennessee Community Services Agency (CSA) did not ensure that the Assessment and Care Coordination Team (ACCT) fully complied with state guidelines.

The ACCT serves as a single regional portal of entry into the state's Children's Plan system, and the ACCT Director is responsible for centralized case assessment, planning, and management of children in the state's custody or at imminent risk of coming into the state's custody. The ACCT case records are prepared and maintained by case managers.

In June 1995, the executive director issued a directive detailing procedures to improve ACCT compliance. However, a review of 30 files revealed that some areas continue to need improvement.

a. Thirteen of 30 files tested (43.3%) did not contain evidence that the child's computer record was updated within one (1) full working day of a major change occurring in the child's case. *ACCT Program Standards*, Sections I.1.5 and IIA.1.5, states "A case manager must update a child's computer record, within one (1) full working day, whenever a major change occurs in the child's case."

b. Four of 30 files tested (13.3%) did not contain all pertinent information concerning the child and family. *ACCT Program Standards*, Section IIA.1.6, states, "Case notes will be maintained throughout the child's involvement with the ACCT and should contain all relevant and pertinent information concerning the child and family."

c. Five of 17 files tested (29.4%) did not contain a completed Title IV-A Emergency Assistance form HS-2527. Two additional files of the 17 files tested (11.8%) did not have a Title IV-A Emergency Assistance form HS-2527 completed within seven days of ACCT's involvement with the child. *ACCT Program Standards*, Section IV.1.6, states, "The ACCT case manager will complete an Application for Title IV-A Emergency Assistance Services as soon as possible but no later than seven (7) calendar days of the child's referral."

d. Eight of 29 files tested (27.6%) did not contain records of the child's health and, if applicable, the child's education. *ACCT Program Standards*, Section IIA.1.4, states that the child's record should include social history, school records, Managed Care Organization information, and psychological assessment summaries (if applicable).

e. Four of 29 files tested (13.8%) did not contain a plan of care or an annual update/revision. *Tennessee Code Annotated*, Section 37-2-403(a)(1), states that "an agency shall prepare a plan for each child in its foster care" and that the plan "shall be reevaluated and updated at least annually."

f. Five of 23 files tested (21.7%) had no evidence that the child's progress was ever documented and reviewed by the court or Foster Care Review Board (FCRB). Two of 23 files (8.7%) did contain a copy of the documented progress of the child reviewed by the court or FCRB but it was not completed every six months or within six months after the last judicial hearing. *ACCT Program Standards*, Section IID.1.1, states, "The ACCT will obtain a copy of the Foster Care Review Board's recommendations for the child's ACCT file." Furthermore, Section IID.1.11.6 states, "Whenever feasible and appropriate, the ACCT case manager will incorporate the Review Board's service recommendations into the child's Plan of Care."

g. Seven of 14 files tested (50.0%) had no evidence that a permanency planning hearing was ever held. An additional seven files of the 14 files tested (50.0%) did not contain evidence that a permanency planning hearing was held within 18 months of placement by a judge or referee and in 18-month intervals thereafter. *Tennessee Code Annotated*, Section 37-2-409(b)(1), states that "the judge or referee shall hold a hearing within 18 months of the date of foster care placement for each child . . . subsequent hearings shall be held no less frequently than every 18 months thereafter. . . ." Furthermore, *ACCT Program Standards*, Section IID.1.12, states, "The custody department is to ensure that copies of the court order [resulting from the Permanency Planning Hearing] are distributed to the ACCT. . . ." Also, Sections IID.1.12.5 and III.1.5.7 require that documentation of court orders be maintained in all case files.

h. Seven of 22 files tested (31.8%) had no evidence that a plan of care progress report was ever completed. Four of 22 files (18.2%) did not contain a Plan of care progress report documenting the progress of the child every six months. *Tennessee Code Annotated*, Section 37-2-404(a), states, "Such reports shall be prepared by the agency having custody of the child within 90 days of the date of foster care and no less frequently than every six months thereafter." *ACCT Program Standards*, Section IID.1.5 states, "The ACCT shall review the child and family's Plan of Care . . . within the first 90 days, 180 days, and 360 days and every 90 days thereafter. Plans of Care shall be revised and new plans created when required."

i. Four of 29 files tested (13.8%) did not contain a copy of the child's social security card. *ACCT Program Standards*, Section IIA.1.4.1(e)(5), requires that a copy of the social security card be included in the file so case records are uniform.

j. Two of 11 files tested (18.2%) had no evidence that a foster care plan was ever completed. Of children taken into custody during the audit period, one of 11 tested (9.1%) did not have a foster care plan completed within 30 days of placement. *Tennessee Code Annotated*, Section 37-2-403(a)(1), states that "within thirty (30) days of . . . placement, an agency shall prepare a plan for each child in its foster care." *ACCT Program Standards*, Section IIB.1, states, "The Plan of Care must be developed within 15 calendar days of the child entering state care."

k. For children taken into custody during the audit period, two of ten files tested (20.0%) did not have foster care plans that were ratified by the court. *Tennessee Code Annotated*, Section 37-2-403(a)(2), states, "The court must review the proposed plan, make any necessary modifications, and ratify the plan within sixty (60) days of the foster care placement." *ACCT Program Standards*, Section IIB.1.1.14, states, "The ACCT will secure the court's signature on the Plan of Care and distribute it to the appropriate parties."

l. For children taken into custody during the audit period, two of seven files tested (28.6%) did not have their progress reported to and reviewed by the court or FCRB. *Tennessee Code Annotated*, Section 37-2-404(a), states, "each agency shall submit to the appropriate court or board a report for each child in its foster care on progress made. . . . Such reports shall be prepared by the agency . . . within ninety (90) days of the date of foster care placement and no less frequently than every six months thereafter. . . ."

These instances of noncompliance indicate the ACCT case managers still have not maintained adequate case records. Complete records (as detailed in the *ACCT Program Standards*) are essential if the CSA, through its ACCT case managers, is to appropriately assess and monitor the progress of children.

RECOMMENDATION:

The agency should improve its compliance with *Assessment and Care Coordination Team (ACCT) Program Standards*. The Executive Director and the ACCT Director should evaluate the agency's control structure for ensuring compliance with ACCT guidelines and identify specific weaknesses within the system including inadequate policies and procedures, areas not addressed by policies and procedures, inefficiencies in processing information or providing services, insufficiently trained or ineffective employees, or areas where outside agencies are not providing the required information or cooperation. Management should then address the areas within their control and make appropriate changes for improvement. Attempts to improve the areas outside of management's control should be documented.

The Executive Director and the ACCT Director should then ensure that all ACCT case managers receive adequate training on state requirements, program standards, case file management, and the agency's specific policies and procedures for ensuring compliance with all ACCT guidelines.

MANAGEMENT'S COMMENTS:

We concur with findings a through 1. We concur with item g that documentation of a Permanency Planning Hearing is an ACCT responsibility. However, the actual occurrence of such a hearing is a responsibility between the custody department and the juvenile court.

The Department of Children's Services was established in 1996 following legislation enacted by the state legislature. The delivery of services along with related policies and procedures for the Department of Children's Services and the ACCT program are being revised. A new program model is being implemented which will greatly impact the services provided by the ACCT program. It is anticipated that implementation of the new program model will result in staff having clearly defined roles and fewer cases which will lead to improved compliance with program standards.

The agency strives to improve its compliance with ACCT Team guidelines. Management is not pleased that these instances of noncompliance indicate the ACCT case managers still have not maintained adequate records. We will emphasize achieving compliance with the *ACCT Program Standards* and accept responsibility for weaknesses that are present. Our focus will be to identify areas that are inadequate, inefficient, or insufficient and concentrate on improvement methods which will promote compliance. Attempts to improve areas outside our control will be recommended and documented.

Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

November 8, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the First Tennessee Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated November 8, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the agency is the responsibility of the agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial instances of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

Independent Auditor's Report

November 8, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying combined balance sheets of the First Tennessee Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of revenues, expenditures, and changes in fund balances, for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the First Tennessee Community Services Agency as of June 30, 1996, and June 30, 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated November 8, 1996, on our consideration of First Tennessee Community Services Agency's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission has changed from providing health care services to indigent citizens in the state to coordinating care for children and other citizens in the state, CHA employees, financial assets and obligations, and fund balances now belong to the CSA. The First Tennessee CSA works in conjunction with the Tennessee Department of Children's Services to coordinate "funds or programs designated for care of children and other citizens in the state."

Factors considered in determining reporting status were not affected by the above legislation. Title 37, Chapter 5, of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The First Tennessee Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report.* Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA's governing body and approves the CSA's Plan of Operation (budget).

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Certain amounts presented for the preceding year have been reclassified for comparative purposes.

C. Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the First Tennessee CSA are maintained on the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

The agency's accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency's financial activities reported in the accompanying statements are classified into one fund type and two account groups:

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

D. Totals (Memorandum Only)

The total columns of the combined balance sheets are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

E. Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioners of the Tennessee Departments of Children's Services and Finance and Administration and to the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. The agency's financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 2. DEPOSITS

The agency's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1996, the carrying amount of the agency's deposits was $1,420.64, and the bank balance was $84,127.89. The entire bank balance was insured. From July 1, 1995, to October 31, 1995, the agency had uncollateralized amounts as high as $105,196.99.

At June 30, 1995, the carrying amount of the agency's deposits was $1,411.65, and the bank balance including accrued interest was $81,344.62. The entire bank balance was insured. From July 1, 1994, through July 10, 1994, the agency had uncollateralized amounts as high as $22,723.86.

At June 30, 1996, and June 30, 1995, the agency had deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer of $510,324.89 and $618,744.82, respectively. The custodial credit risk for cash in the Local Government Investment Pool is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 1996, and June 30, 1995.

At June 30, 1996, and June 30, 1995, petty cash on hand was $300.00 and $100.00, respectively.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1996

Due From:	
Department of Health–program funds	$ 65,849.01
Department of Correction–program funds	307,965.17
Total due from primary government	$ 373,814.18
Due To:	
Department of Children's Services–program funds	$ 169,489.75
Department of Health–program funds	2,498.84
Local Government Group Insurance	382.66
Department of the Treasury–retirement contributions	14,390.08
Comptroller of the Treasury–audit fees	29,412.11
Total due to primary government	$ 216,173.44

June 30, 1995

Due From:	
Department of Health–program funds	$ 75,343.04
Department of Correction–program funds	156,588.72
Total due from primary government	$ 231,931.76
Due To:	
Department of Finance and Administration–program funds	$ 172,765.04

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1996:

	Balance July 1, 1995	Additions	Deletions	Balance June 30, 1996
Furniture and equipment	$130,010.26	$17,030.79	$12,853.30	$134,187.75

The following changes in general fixed assets occurred during the year ended June 30, 1995:

	Balance July 1, 1994	Additions	Deletions	Balance June 30, 1995
Furniture and equipment	$ 66,845.61	$63,164.65	$ -	$130,010.26

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1996:

	Balance July 1, 1995	Increases	Balance June 30, 1996
Amount to be provided for retirement of general long-term obligations	$106,552.32	$26,828.44	$133,380.76
Accrued annual leave	$106,552.32	$26,828.44	$133,380.76

The following changes in general long-term obligations occurred during the year ended June 30, 1995:

	Balance July 1, 1994	Increases (Decreases)	Balance June 30, 1995
Amount to be provided for retirement of general long-term obligations	$86,063.29	$20,489.03	$106,552.32
Accrued annual leave	$83,720.57	$22,831.75	$106,552.32
Capital lease obligation	2,342.72	(2,342.72)	-
Total general long-term obligation	$86,063.29	$20,489.03	$106,552.32

NOTE 6. OPERATING LEASES

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were $81,900.00 and $8,568.55 for the year ended June 30, 1996, and were $81,900.00 and $31,474.95 for the year ended June 30, 1995. All leases except for a car, a copy machine, and a postage machine were cancelable at the lessee's option.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 1996:

Year Ending June 30	
1997	$ 6,728.14
1998	6,096.00
1999	3,954.00
2000	1,818.00
Total minimum payments required	$18,596.14

In addition, the State of Tennessee has entered into cancelable lease agreements for equipment on behalf of the agency. The agency reimburses the state for these lease payments each month. Total reimbursements to the state for operating leases were $46,482.43 for the year ended June 30, 1996, and were $45,641.30 for the year ended June 30, 1995. The agency is not obligated to continue making the lease payments should it discontinue use of the equipment.

NOTE 7. DEFINED BENEFIT PENSION PLAN

A. Plan Description

All full-time employees of the agency are members of an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS acts as a common investment and administrative agent for political subdivisions in the state. The agency participates in the TCRS as a political subdivision and is liable for the costs associated with the operation and administration of its plan. The agency's payroll for employees covered by the plan for the year ended June 30, 1996, was $2,620,475, and total payroll was $2,635,569. At June 30, 1995, covered payroll was $2,419,174, and total payroll was $2,443,271.

The TCRS administers a defined benefit retirement plan covering teachers and general employees of the state, higher education employees, and employees of participating political subdivisions. Membership in the system is mandatory for all participants' full-time employees. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members may retire at age 60 with five years' service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members are vested after five years of service. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefit provisions are established and amended by state statute. Amendments to the TCRS plan are not applicable to a political subdivision unless approved by the political subdivision's governing body.

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees.

B. Funding Status and Progress

The "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the agency's pension program as administered by TCRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The measure is independent of the actuarial funding method used to determine contributions to the system.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995, and an actuarial update performed as of June 30, 1996. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 7 percent a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6 percent annual increase in the Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit.

Total assets in excess of pension benefit obligation applicable to agency employees was $640,761 at June 30, 1996, and $460,013 at June 30, 1995, as follows:

	June 30, 1996	June 30, 1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits	$ 103,981	$ 34,735
Current employees:		
Accumulated employee contributions including allocated investment earnings	38,223	36,403
Employer-financed vested	180,627	163,781
Employer-financed nonvested	320,841	290,917
Total pension benefit obligation	643,672	525,836
Net assets available for benefits, at cost or amortized cost (market value is $1,401,286 at June 30, 1996, and $1,069,822 at June 30, 1995)	1,284,433	985,849
Assets in excess of pension benefit obligation	$ 640,761	$ 460,013

C. Actuarially Determined Contribution Requirements and Contributions Made

It is the policy of the Board of Trustees of TCRS to fund pension benefits by actuarially determined contributions which are intended to provide funding for both the normal cost and the unfunded actuarial accrued liability cost, so sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected-benefit cost method, is used to value the plan. All unfunded actuarial accrued liabilities are amortized over a 30-year period. The accrued liability for basic benefits and cost-of-living benefits is amortized as a level-dollar amount.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described in B above.

The contribution to the TCRS for the year ended June 30, 1996, of $207,280 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) $176,882 in normal costs (6.75% of current covered payroll), (b) $25,943 in amortization of the unfunded actuarial accrued liability (0.99% of current covered payroll), and (c) $4,455 in administrative costs (0.17% of current covered payroll). The agency contributed $207,280 (7.91% of current covered payroll). The actuarial valuation as of June 30, 1993, computed contribution rates effective July 1, 1994, through June 30, 1996. The actuarial valuation as of June 30, 1995, determined the rates for a two-year period beginning July 1, 1996.

Actuarially required contributions for the year ended June 30, 1995, totaled $191,357 (7.91% of covered payroll). The contribution consisted of (a) $163,294 in normal costs (6.75% of current covered payroll), (b) $23,950 in amortization of the unfunded actuarial accrued liability (0.99% of current covered payroll), and (c) $4,113 in administrative costs (.17% of current covered payroll).

D. Trend Information

Three-year historical trend information designed to give an indication of the progress made by the agency in accumulating sufficient assets to pay benefits when due is presented below for fiscal years 1996 and 1995. Information for fiscal year 1994 is not available.

Fiscal Year	(1) Net Assets Available For Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Assets in Excess of PBO (2)-(1)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Covered Payroll (4)÷(5)
1996	$1,284,433	$643,672	199.55%	$(640,761)	$2,620,475	(24.45%)
1995	$ 985,849	$525,836	187.48%	$(460,013)	$2,419,174	(19.02%)

Showing assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the two years ended June 30, 1996, and 1995, the agency's contributions to the TCRS, made in accordance with actuarially determined requirements, were 7.91% of annual covered payroll. Information for fiscal year 1994 is not available. Ten-year historical trend information for the retirement system as a whole may be found in the *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report* for the year ended June 30, 1996.

NOTE 8. CONTINGENCIES

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was $149,607.26 at June 30, 1996, and $117,322.76 at June 30, 1995.

NOTE 9. DONATED FACILITIES

The Tennessee Department of Health donates office space, utilities, and telephone service to the First Tennessee Community Services Agency. The value of the donation is not recorded in the financial statements.

NOTE 10. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

A. The agency carries commercial insurance for risks of loss of its personal property and automobile liability, and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.

B. The agency participates in the Claims Award Fund, the State of Tennessee's risk pool for risks of loss related to general liability, automobile liability, professional malpractice, and workers' compensation.

The Claims Award Fund is an internal service fund in which the state has set aside assets for claim settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. To this fund, premiums of participating units are deposited and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80 percent of the total premiums. The employees are responsible for the remaining 20 percent of the total premiums. Employees have the option of obtaining insurance through either Blue Cross and Blue Shield of Tennessee or Healthsource Tennessee, Inc. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience.

NOTE 11. RESTATEMENT OF PRIOR YEAR AMOUNTS

Several amounts were restated for the fiscal year ended June 30, 1995. In the General Fixed Assets Account Group, the furniture and equipment account and the investment in general fixed assets account increased by $8,520. In the General Fund, furniture and equipment expenditures increased by $8,520 and supplies expenditures decreased by $8,520. These restatements were made to recognize computer components purchased during the fiscal year ended June 30, 1995, in accordance with the agency's capitalization policy. Note 4 was also restated to reflect the equipment capitalization.

APPENDIX

FIRST TENNESSEE COMMUNITY SERVICES AGENCY

Wilhelmina Williams, Executive Director

BOARD OF DIRECTORS

Board Officers

Ms. Cleo Reed - Chair
Dr. Burgin Dossett - Vice Chair
Mr. Danny Turnmire - Secretary
Ms. Diane Belcher - Treasurer

Executive Committee Members

Ms. Diane Belcher
Dr. Burgin Dossett
Mr. George Lowe
Ms. Cleo Reed
Mr. Danny Turnmire

Other Members of the Board of Directors

Ms. Connie Givens
Ms. Patsy McCall
Ms. Jacqueline Sensabaugh