

**Knox County Community Services Agency
(Formerly Knox County Community Health Agency)**

**For the Year Ended
June 30, 1996**

**Arthur A. Hayes, Jr.,
CPA**
Director

Barbara K. White, CPA
Assistant Director

Kandi B. Thomas, CPA
Audit Manager

Suzanne Smotherman, CPA
In-Charge Auditor

**Timothy B. Bazar
Dustin M. Green
Alisa F. Mann**
Staff Auditors

Dianne Mitchell McKay, CPA
Technical Manager

Leslie Bethea
Editor

July 8, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Knox County Community Services Agency
Knoxville, Tennessee 37917

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Knox County Community Services Agency, formerly the Knox County 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 findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
96/137

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Knox County 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.

INTERNAL CONTROL FINDING

Operating Funds Were at Risk

The CSA put its funds at risk when it allowed its accountant to transfer the funds to an account the CSA had no legal control over (page 6).

COMPLIANCE FINDINGS

Proper Procedures Regarding the Plan of Operation Were Not Followed

The agency failed to submit revisions of its Plan of Operation (annual budget) to the oversight agency during the fiscal year (page 7).

The Agency Should Improve Compliance With ACCT Guidelines

The agency has not ensured the Assessment and Care Coordination Team (ACCT) has fully complied with ACCT 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 9).

Contract Procedures Were Not Followed

A contract amendment was drafted and signed by ACCT employees but was not approved by the agency's board, nor was the Plan of Operation revised as a result of this change (page 8).

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
Knox County Community Services Agency
For the Year Ended June 30, 1996

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
RESULTS OF THE AUDIT		3
Audit Conclusions		3
Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
Findings and Recommendations		6
1. Operating funds were not always secured		6
2. Proper procedures regarding plans of operation were not followed		7
3. Contract procedures were not followed		8
4. The agency should improve compliance with Assessment and Care Coordination Team guidelines		9

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		12
FINANCIAL STATEMENTS		
Independent Auditor's Report		14
Combined Balance Sheets	A	16
Statements of Revenues, Expenditures, and Changes in Fund Balances	B	17
Statement of Changes in Assets and Liabilities—Agency Fund	C	18
Notes to the Financial Statements		19
APPENDIX		32
Board of Directors		32

Knox County Community Services Agency For the Year Ended June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Knox 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

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 Knox County Community Services Agency’s administrative offices are in Knoxville, Tennessee.

The governing body of the Knox County Community Services Agency is the board of directors. As of June 30, 1996, the board was composed of 16 members. (See Appendix.)

An executive committee, consisting of two 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 Managed Care for Children and Prevention Services programs are carried out by a staff under the supervision of the executive director, who is an employee of the Knox County Health Department. The agency has contracted with Knox County government to provide personnel for the day-to-day administrative and management functions, accounting services, and contractor monitoring. As the agency’s accounting service, the Knox County government handled all financial transactions, maintained the accounting records, and in essence served the

function of an outside processing fiscal agent. Accordingly, all records, purchasing, accounting, and financial procedures were subject to the policies and procedures of Knox County government, except in the case of a conflict between state and county rules and regulations. In such a case, the policies and procedures of the state prevailed. The executive director was the custodian of the funds and reported to the chairman of the board and the board of directors on the status of the programs.

For all other program operations, the agency contracted with Knox County government or other entities.

AUDIT SCOPE

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 Knox County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVE 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit 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. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations, which follow the report on the internal control structure. 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 Knox County 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 instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

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

October 18, 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 Knox County 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 October 18, 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 proce-

The Honorable W. R. Snodgrass
October 18, 1996
Page Two

dures 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.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

We noted the following reportable condition: Operating funds were not always secured. This condition is described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

We also noted other 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/cr

FINDINGS AND RECOMMENDATIONS

1. Operating funds were not always secured

Finding

The Knox County Community Services Agency (CSA) did not ensure its operating funds were always secured. The CSA contracts with Knox County government for certain services, one of which is accounting services. The accountant for the CSA works for the county Health Department, but the county Finance Department disburses the funds.

During the audit period, financing for the CSA was a three-step process: State funds appropriated for the CSA were deposited into the Local Government Investment Pool. The accountant transferred these funds to a Knox County Health Department account. He then wrote a check to the Knox County Finance Department. The middle step left the funds unsecured in the health department's account because the CSA and the department had no security agreement covering these funds. Furthermore, this step increased the time the funds were in transit and reduced the time the funds could earn interest in the LGIP.

Recommendation

The acting executive director should ensure the agency's operating funds are always secured. The acting executive director should not transfer funds to Knox County Finance Department until they are ready for disbursement by the county in order to maximize interest earnings.

Management's Comment

We concur. The Knox County Health Department accountant no longer has access to the CSA's LGIP account. The acting Executive Director of the CSA now controls disbursements from the LGIP account. Funds are transferred from the LGIP account when requested by Knox County Finance Department to cover disbursements by the county. The funds are transferred directly from the LGIP account to the Knox County Trustee's account. This allows the funds to reside in the LGIP account until needed by Knox County, all the while earning interest. Additionally, Knox County Finance Department is currently performing an interest calculation to credit the CSA with interest earnings at the current LGIP rate on all funds transferred to Knox County Trustee for the period between receipt by Knox County Trustee and disbursement by the county.

2. Proper procedures regarding plans of operation were not followed

Finding

The Knox County Community Services Agency did not adhere to the requirements of its own *Policy and Procedures Manual* nor with the *Rules of the Tennessee Department of Health* regarding the approval of revisions to the Plan of Operation.

The agency did not promptly submit to the Tennessee Department of Health two revisions to the Plan of Operation. According to the board minutes, the agency's board approved the first revision on November 8, 1995, and the second on April 16, 1996. However, the chair of the board did not sign the revisions until July 31, 1996, and then submitted them to the Department of Health. Furthermore, the agency did not prepare a revision to the Plan of Operation for a contract which was amended during the year (see finding 3).

Chapter 1200-20-10-.04(1), *Rules of the Tennessee Department of Health*, states, "The Plan of Operation may be revised during the fiscal year with the approval of the Board and the Commissioner" (emphasis added). All three revisions to the Plan of Operation were submitted after fiscal year end and after the funds had been disbursed. This delay overrides the budgetary controls inherent in the approval process.

Recommendation

The acting executive director needs to insure the Plan of Operation revisions are prepared, approved, and submitted to the proper authorities for approval during the proper time-frame to ensure proper budgetary controls are utilized.

Management's Comment

We concur. All Plan of Operation changes approved by the Board of Directors for the current fiscal year ending June 30, 1997, have been submitted to the Department of Children's Services within this fiscal year. A revision to the Plan of Operation for the last fiscal year relating to the contract which was amended (finding 3) was approved by the Board of Directors this fiscal year and submitted to the Department of Children's Services.

3. Contract procedures were not followed

Finding

The CSA did not adhere to contract procedures when it increased its contract with a service provider from \$6,500 to \$20,942. The agency's Assessment and Care Coordination Team (ACCT) does not seem to understand budgetary controls. By contracting for services beyond the original contract limit, the ACCT obligated the agency for funds without approval of their governing board. Additionally, the ACCT failed to communicate the amended contract to the fiscal staff and failed to retain a signed amended contract.

Because the ACCT did not communicate the contract change to the fiscal employees, the agency neglected to obtain approval for the amendment and did not revise its Plan of Operations to reflect the change in the contract limit. Furthermore, if the fiscal staff had appropriately monitored the contract, the budget overrun would have been detected, the amended contract could have been discovered, and there would have been sufficient time to receive approval for the increases to the contract and the plan of operation.

The *Rules of the Tennessee Department of Health*, Chapter 1200-20-10-.04(1)(c), states that changes to contract terms must be included in the Plan of Operations and approved by the agency's board and the Commissioner of Health.

Recommendation

The acting executive director needs to strengthen controls over contracts. The acting executive director should assign someone to closely monitor contract budgets, to seek prompt approval for contract amendments, to promptly submit plan of operation revisions to the Department of Children's Services, and to ensure that ACCT employees are aware of applicable fiscal policies. In addition, the agency should maintain all documentation regarding contracts and related amendments.

Management's Comment

We concur. The ACCT staff has been informed that the fiscal staff must be able to monitor all contracts with service providers. Also, the ACCT staff and board have been informed that all contracts exceeding \$5,000 must be reflected in the Plan of Operations. Therefore, it is imperative that all contracts and contract revisions are communicated to the fiscal staff immediately upon board approval.

4. The agency should improve compliance with Assessment and Care Coordination Team guidelines

Finding

The Knox County 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 state custody. The ACCT case files, which are prepared and maintained by case managers, were reviewed in conjunction with the audit of the Office of Children's Services Administration in the Department of Children's Services. The audit disclosed the following instances of noncompliance with state law and with regulations listed in the Department of Health's *Assessment and Care Coordination Team Program Standards*.

- a. A Title IV-A Emergency Assistance form was not submitted to the Office of Children's Services Administration within seven days of the ACCT's involvement with the child for four of 25 applicable case files reviewed (16%). *ACCT Program Standards*, Section IV.1.6.1, states, "The ACCT case manager will complete an Application for Title IV-A Emergency Assistance Services . . . no later than seven (7) calendar days of the child's referral for non-custodial or custodial assessment."
- b. Evidence of a review by the Foster Care Review Board every six months was not present in two of 17 applicable case files tested (12%). *ACCT Program Standards*, Section IID.1.11, states, "The ACCT will ensure that the Plan of Care specifies that the first review will occur within 90 days of the child entering state custody and at least every six (6) months thereafter as long as the child remains in state custody" and "the ACCT will obtain a copy of the report of the Foster Care Review Board's recommendations for the child's ACCT file." Section 37-2-404(b), *Tennessee Code Annotated*, states, "Within ninety (90) days of the date of foster care placement and no less often than every six (6) months thereafter . . . the court or board shall review the plan . . . and make a report on the progress made in achieving the goals contained in the plan."
- c. Documentation of a Permanency Planning Hearing held within 18 months of placement and in 18-month intervals was not present in four of ten applicable case files reviewed (40%). *ACCT Program Standards*, Section IID.1.12, states, "the first Permanency Planning Hearing will be held by the 18th month of the child's entering state custody and no less frequently than every 18 months thereafter until the child leaves state custody" and "the ACCT will obtain a copy of the court order reflecting the hearing's outcome for the child's file."

- d. According to *ACCT Program Standards*, Section IIB.1.1.14, “The ACCT will secure the court’s signature on the Plan of Care and distribute it to the appropriate parties.” Section 37-2-403 (a)(2), *Tennessee Code Annotated*, 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.” Nine of nine applicable case files (100%) did not contain evidence that the court had approved the Plan of Care.

These instances of noncompliance indicate that the ACCT case managers did not maintain adequate case records. Complete records (as detailed in the *ACCT Program Standards* and *Tennessee Code Annotated*) 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 its 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 Comment

We concur with the finding and will correct the problems cited as indicated below:

- a. The Children’s Services (formerly ACCT) manager and supervisors will redouble their efforts to assure that all portions of the benefits applications are submitted timely for every child entering state custody.
- b., c. In cases where the minutes of Foster Care Review Board meetings are absent, staff will attempt to secure those minutes. If they cannot be secured, a casenote will be entered into the file noting the reason that the minutes could not be obtained. The same procedure will be followed for documentation of Permanency Planning Hearings.

- d. The Knox County Juvenile Court typically approves the plan for the child as evidenced in the Plan of Care. However, the approval comes by way of verbal agreement followed by a formal court order rather than signature on the Plan of Care itself. In some instances the court order does not get transmitted to the CSA worker by the Department of Children's Services (DCS) legal staff and therefore does not appear in the child's casefile. Management staff will work closely with DCS legal staff to assure that all such court orders are transmitted to CSA staff and placed in the casefile as an attachment to the Plan of Care.

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

October 18, 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 Knox County 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 October 18, 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.

The Honorable W. R. Snodgrass
October 18, 1996
Page Two

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations 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/cr

Independent Auditor's Report

October 18, 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 Knox County 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 and the statement of changes in assets and liabilities of the agency fund for the year ended June 30, 1996. 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 Knox County 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.

The Honorable W. R. Snodgrass
October 18, 1996
Page Two

In accordance with generally accepted government auditing standards, we have also issued reports dated October 18, 1996, on our consideration of Knox County 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/cr

Knox County Community Services Agency
Notes to the Financial Statements
June 30, 1996, and June 30, 1995

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 Knox County CSA works in conjunction with the Tennessee Department of Children's Services and the Knox County government 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 Knox County 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 CSA is financially accountable to the state because the state 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 Knox County CSA are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

The general fund is presented using the flow of current financial resources measurement focus. The agency fund is custodial in nature and does not measure results of operations or have a measurement focus.

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 two fund types and two account groups:

Governmental Fund Type

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

Fiduciary Fund Type

Agency Fund—used to account for *Internal Revenue Code*, Section 457, deferred compensation plan balances.

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.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

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. Investments

This classification consists of investments in the deferred compensation plan valued at fair value.

G. Prepaid Item

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

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995**

NOTE 2. DEPOSITS

Generally accepted accounting principles require deposits with financial institutions to be categorized to indicate the level of risk assumed by the Knox County Community Services Agency (KCCSA). Category 1 consists of deposits that are insured or collateralized with securities held by KCCSA. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the CSA's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the CSA's name.

At June 30, 1996, and 1995, the carrying amounts of funds held in the Local Government Investment Pool were \$198.25 and \$400.87, respectively. Custodial credit risk for cash in LGIP is presented in the Tennessee Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 1996, and June 30, 1995.

At June 30, 1996, the carrying amount of funds held in trust by the Knox County Trustee was \$14,332.09. At June 30, 1995, the carrying amount of funds held in trust by Knox County was \$234,452.07, of which \$336.40 was on deposit with the Knox County Health Department and \$234,115.67 was on deposit with the Knox County Trustee. The Knox County Trustee's custodial risk is presented in the Knox County CAFR. The June 30, 1996, and June 30, 1995, Knox County CAFRs include both category 1 and category 2 collateral.

At June 30, 1996, and June 30, 1995, petty cash on hand was \$300.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

Year Ended June 30, 1996

Due From:		
Department of Health—program funds		\$ 93,940.00
Department of Children's Services—program funds		<u>200,242.17</u>
Total due from primary government		<u><u>\$ 294,182.17</u></u>

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995**

Due To:	
Department of the Treasury—retirement contributions	\$ 4,461.66
Department of Children’s Services—program funds	35,225.02
Department of Finance and Administration— Office of Information Resources—computers	<u>6,497.60</u>
Total due to primary government	<u><u>\$46,184.28</u></u>

Year Ended June 30, 1995

Due To:	
Department of Finance and Administration—program funds	\$104,560.76
Department of Finance and Administration— Office of Information Resources	4,881.16
Department of Health	175.59
Department of Treasury—retirement contributions	<u>6,967.87</u>
Total due to primary government	<u><u>\$116,585.38</u></u>

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:

	<u>Balance</u> <u>July 1, 1995</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1996</u>
Furniture and equipment	<u>\$22,391.06</u>	<u>\$ -</u>	<u>\$505.00</u>	<u>\$21,886.06</u>

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

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

	<u>Balance</u> <u>July 1, 1994</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1995</u>
Furniture and equipment	<u>\$20,070.66</u>	<u>\$3,569.40</u>	<u>(\$1,249.00)</u>	<u>\$22,391.06</u>

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

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

	<u>Balance</u> <u>July 1, 1995</u>	<u>Increases</u>	<u>Balance</u> <u>June 30, 1996</u>
Amount to be provided for retirement of general long-term obligations	<u>\$25,093.55</u>	<u>\$1,807.37</u>	<u>\$26,900.92</u>
Accrued annual leave	<u>\$25,093.55</u>	<u>\$1,807.37</u>	<u>\$26,900.92</u>

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

	<u>Balance</u> <u>July 1, 1994</u>	<u>Increases</u>	<u>Balance</u> <u>June 30, 1995</u>
Amount to be provided for retirement of general long-term obligations	<u>\$20,151.05</u>	<u>\$4,942.50</u>	<u>\$25,093.55</u>
Accrued annual leave	<u>\$20,151.05</u>	<u>\$4,942.50</u>	<u>\$25,093.55</u>

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

NOTE 6. OPERATING LEASE(S)

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 \$74,295.47 and \$34,707.13 for the year ended June 30, 1996, and were \$73,868.06 and \$44,436.98 for the year ended June 30, 1995. The leases were cancelable at the lessee's option.

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 and total payroll for the year ended June 30, 1996, were \$777,582. At June 30, 1995, covered payroll and total payroll were \$733,499.

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.

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995**

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 \$110,643 at June 30, 1996, and \$47,449 at June 30, 1995, as follows:

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits	\$ 43,446	\$ 43,940

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995**

Current employees:		
Accumulated employee contributions including allocated investment earnings	-	-
Employer-financed vested	44,304	35,895
Employer-financed nonvested	45,208	36,627
Total pension benefit obligation	132,958	116,462
Net assets available for benefits, at cost or amortized cost (market value is \$265,763 at June 30, 1996, and \$177,873 at June 30, 1995)	243,601	163,911
Assets in excess of pension benefit obligation	<u>\$ 110,643</u>	<u>\$ 47,449</u>

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 \$61,507 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) \$52,487 in normal costs (6.75% of current covered payroll), (b) \$7,698 in amortization of the unfunded actuarial accrued liability (.99% of current covered payroll), and (c) \$1,322 in administrative costs (.17% of current covered payroll). The agency contributed \$61,507 (7.91% of cur-

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995**

rent 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 \$58,020 (7.91% of covered payroll). The contribution consisted of (a) \$49,511 in normal costs (6.75% of current covered payroll), (b) \$7,262 in amortization of the unfunded actuarial accrued liability (.99% of current covered payroll), and (c) \$1,247 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.

	(1)	(2)	(3)	(4)	(5)	(6)
						Assets in Excess of PBO as a Percentage of Covered Payroll
Fiscal Year	<u>Net Assets Available For Benefits</u>	<u>Pension Benefit Obligation</u>	<u>Percentage Funded (1)÷(2)</u>	<u>Assets in Excess of PBO (2)-(1)</u>	<u>Annual Covered Payroll</u>	<u>(4)÷(5)</u>
1996	\$243,601	\$132,958	183.22%	(\$110,643)	\$777,582	(14.23%)
1995	\$163,911	\$116,462	140.74%	(\$ 47,449)	\$733,499	(6.47%)

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*

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Retirement System Comprehensive Annual Financial Report for the year ended June 30, 1996.

NOTE 8. DEFERRED COMPENSATION PLAN

The Knox County Community Services Agency offers its employees a deferred compensation plan in accordance with *Internal Revenue Code* Section 457. The plan, available to all agency employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency.

Section 457 plan balances have been reported as an agency fund in the financial statements. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the agency (without being restricted to the provisions of benefits under the plan), subject only to claims of the agency's general creditors. Participants' rights under the plan are equal to those of general creditors of the agency in an amount equal to the fair value of the deferred account for each participant. The agency has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The agency believes it is unlikely that it will use these assets to satisfy the claims of general creditors in the future.

NOTE 9. 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 \$23,919.78 at June 30, 1996, and \$22,771.00 at June 30, 1995.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

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 cash on hand, personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- 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

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

the remaining 20 percent of the total premiums. Claims are administered by Blue Cross and Blue Shield of Tennessee, which is 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.

APPENDIX

KNOX COUNTY COMMUNITY HEALTH AGENCY

Harry K. McRae, Executive Director

BOARD OF DIRECTORS

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Patricia M. Williams, R.N., M.P.H., Vice Chair
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