

Southeast Community Services Agency

**For the Year Ended
June 30, 1997**

Arthur A. Hayes, Jr., CPA
Director

Barbara K. White, CPA
Assistant Director

Tammy D. Gourley, CPA
Audit Manager

Patricia L. Wakefield, CPA
In-Charge Auditor

Zachary Barnum
Melissa D. Rice

Dianne Mitchell McKay, CPA
Technical Manager

Suzanne Smotherman, CPA
Kimberly D. White
Staff Auditors

Erica V. Smith, CPA
Technical Analyst

Leslie Bethea
Editor

September 14, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Southeast Community Services Agency
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Southeast Community Services Agency for the year ended June 30, 1997. 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 internal control over financial reporting 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/th
98/019

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Southeast Community Services Agency
For the Year Ended June 30, 1997

AUDIT OBJECTIVES

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

COMPLIANCE FINDINGS

Funds Committed Without Approval

The agency entered into a fiscal year 1997-98 contract with the Department of Health before the fiscal year 1998 Plan of Operation was approved. The agency could have continued operating under the 1996-97 contract, provided funds were available (page 7).

Noncompliance With Assessment and Care Coordination Team Guidelines

The agency has not ensured that the Assessment and Care Coordination Team (ACCT) fully complied with state guidelines. ACCT case managers have not maintained adequate case records (page 8).

Records Not Properly Maintained for Review by Appropriate Authorities

The agency has not properly maintained records needed during audits by the Comptroller's Office. The agency released ACCT files from its custody before the audit without notifying the Comptroller's Office (page 10).

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
Southeast Community Services Agency
For the Year Ended June 30, 1997

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Southeast Community Services Agency For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Southeast Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

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 Southeast Community Services Agency comprises the following counties: Bledsoe, Bradley, Franklin, Grundy, McMinn, Marian, Meigs, Polk, Rhea, and Sequatchie. The agency’s administrative offices are in Chattanooga, Tennessee.

The governing body of the Southeast Community Services Agency is the board of directors. As of June 30, 1997, the board was composed of 11 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.

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. The Southeast Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

During the audit period the Southeast Community Services Agency entered into a contract with the Department of Health. The contract specified the programs the agency would operate, including the Community Development Program and the Children's Special Services Care Coordination Program.

The Southeast Community Services Agency (CSA) had been notified by the Department of Health that effective November 1995, 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 CSA was responsible for posting the position, and the Department of Health regional director would interview applicants and make recommendations for hire. In practice, the regional director was offered the opportunity to participate in hiring decisions and declined to do so. The agency program manager interviews prospective employees and makes hiring recommendations. Under the terms of the contract in effect during the year ended June 30, 1997, the CSA program manager reports to the CSA executive director for administrative supervision and to the Department of Health's regional coordinator for programmatic coordination. The CSA program manager supervises all other program staff.

For the Children's Special Services Care Coordination Program, 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 worked with the Department of Health regional director through a CSA program supervisor. This arrangement is identical to the Community Development Program arrangement described above.

The salaries, travel costs, and other program costs for all program employees hired through the Southeast Community Services Agency 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 and administrative agent.

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Southeast Community Services Agency.

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

March 10, 1998

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 Southeast Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated March 10, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable W. R. Snodgrass
March 10, 1998
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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting 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 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/th

FINDINGS AND RECOMMENDATIONS

1. The agency committed funds without approval

Finding

The Southeast Community Services Agency entered into a fiscal year 1997-98 contract with the Department of Health before the fiscal year 1998 Plan of Operation was approved. The Plan of Operation is the legal instrument governing the activities of the community services agency (CSA) [*Tennessee Code Annotated*, Section 37-5-310(a)] and must be approved by the Commissioner of Children's Services, the Commissioner of Finance and Administration, and the Comptroller of the Treasury. Therefore, the agency agreed to perform services and may have committed state and federal funds before it had approval to do so. According to the Community Health Agency Rules and Regulations governing the CSA's, the agency could have continued operating under the fiscal year 1996-97 contract with the Department of Health, provided funds were still available.

Recommendation

The Southeast Community Services Agency should not enter into contracts until the Plan of Operation has been approved. If the new fiscal year Plan of Operation has not been approved on July 1, the agency should continue under the previous year's plan, provided funds are available.

Management's Comment

We concur. We agree that the specified contract with the Department of Health was executed prior to the formal approval of the agency's fiscal year 1998 Plan of Operation, as we have also done in previous operating years without objections being voiced. The Department of Health informed the agency that under their policies no funds for continuing program operations could be, or would be, made available to the agency on or after July 1, 1997, absent the agency's execution of the contract documents on the Department of Health's requested time schedule which ended prior to the final approval of the fiscal year 1998 Plan of Operation. Therefore, the agency executed the contract documents as requested by the Department of Health with a focus on continuing to provide, on an uninterrupted basis, the essential program services to various clientele under this contract. Had we not executed the contract as instructed by the Department of Health, we also would have been placed in the position of having no reasonable choice but to discontinue these program operations, thereby placing all program staff on unpaid furlough status (a total of 9 employees). Additionally, we had submitted our Plan of Operation in a timely manner prior to April 1, 1997 and we were under the impression that it would be approved by July 1, 1997, the date on which the contract became effective. At no point did the agency intend to circumvent the

applicable rules and regulations governing our operations. Our only intent was to insure that essential services to the population we serve were not interrupted. In the future, the agency will not execute such contractual agreements until such time as formal approval of our Plan of Operation for the operating period has been obtained.

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

Finding

The Southeast Community Services Agency has not ensured 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 who are in the state's custody or are at imminent risk of coming into the state's custody. The ACCT case records are prepared and maintained by case managers.

The CSA took steps in previous years to improve compliance. Specifically, the executive director issued a directive in April 1995 detailing procedures to improve ACCT compliance. However, a review of 30 files revealed that the following areas need improvement:

- a. A Title IV-A Emergency Assistance Form was not present in four of 22 applicable files tested (18.18%). Additionally, one form in 22 applicable files tested (4%) was completed fifteen days late. Section IV.1.6.1 of *ACCT Program Standards* 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. A court-approved plan of care signed within 60 days of placement was not present in one of five applicable files tested (20%). 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."
- c. Documentation of a Permanency Planning Hearing held within 18 months of placement was not present in two of 13 applicable files tested (15.4%). Section IID.1.12 of *ACCT Program Standards* states, "The custody department also ensures that copies of the court order (resulting from the permanency planning hearing) are distributed to the ACCT." Additionally, Sections IID.1.12.5 and III.1.5.7 require that documentation of court orders be maintained in all case files for both custodial and non-custodial children.
- d. Evidence of the court or Foster Care Review Board's review of files within 90 days of the initial placement was not present in one of eight applicable files tested (12.5%).

Section 37-2-404(b), *Tennessee Code Annotated*, states, “Within ninety (90) days of the date of foster care placement and no less than every six (6) months after . . . the court or board shall review the plan . . . and make a report on the progress made in achieving the goals contained in the plan.”

- e. Evidence of review by a foster care review board or by the court every six months was not present in two of 20 applicable files tested (10%). *ACCT Program Standards*, Section IID.1.11.4, states, “The ACCT will obtain a copy of the Foster Care Review Board’s recommendations for the child’s ACCT file.” Furthermore, Section IID.1.11.5 states, “Whenever feasible and appropriate, the ACCT case manager will incorporate the Review Board’s service recommendations into the child’s Plan of Care.”

These instances of noncompliance indicate the ACCT case managers have not maintained adequate case records. Complete case 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 continue to improve its compliance with ACCT guidelines. The Executive Director and the ACCT Director of the agency should ensure that ACCT case managers comply with state requirements and program standards and that the team strengthens controls over case file management.

Management’s Comment

We concur. We agree that there were deficiencies in the five specific areas noted. However, we wish to point out that the deficiencies described in Item A, regarding Title IV-A Emergency Assistance Forms compliance to ACCT Program Standards, is the only one of five areas in which the Agency has clear, singular responsibility for compliance as well as the authority to bring about such compliance. Although the ACCT Program Standards do assign the agency accountability for Permanency Planning Hearing documentation as detailed in Item B and C and for Foster Care Review Board documentation as detailed in Items D and E, the agency was essentially dependent upon the cooperation of the appropriate juvenile court and/or the State’s custodial department to conduct such processes and, if conducted, to provide documentation of their occurrence. Absent their willing cooperation, the Agency had no means or authority to assure the occurrence of these processes and the inclusion of appropriate documentation in the ACCT case files. We do concede that the agency should have provided, in the absence of required documentation, a sufficiently detailed account of our efforts to obtain such documents and an explanation for their absence. We wish to also note that with the implementation of the Department of Children’s Services integrated service delivery model, beginning July 1, 1996, the agency no longer conducts the Assessment and Care Coordination Team program, and we now

participate in this service delivery model by means of our Children and Family Services program activities.

3. The agency did not properly maintain records for review by appropriate authorities

Finding

The CSA has not properly maintained records needed during audits by the Comptroller's Office. After the close of the fiscal year ended June 30, 1996, the agency was directed by the Department of Children's Services to move its Assessment and Care Coordination Team (ACCT) files to a department field office. The agency, however, did not notify the Comptroller's Office it was releasing the ACCT files from its custody before the audit. Although the requested files were obtained for the auditors, some were incomplete. The agency maintained that it could not be held responsible for the completeness of the files once they were in the custody of the Department of Children's Services. The CSA, however, is by law accountable for the contents of its records until they are audited. Section 37-5-313, *Tennessee Code Annotated*, states:

The community services agencies shall maintain all books and records in accordance with generally accepted accounting principles, and at no less than those recommended in the *Accounting Manual for Recipients of Grant Funds in Tennessee* published by the comptroller of the treasury. Such records shall be made available for inspection to the department and/or the comptroller of the treasury, upon request.

The agency must properly maintain files in order for the Comptroller's Office to conduct required audits. Proper review of ACCT case files cannot be made if the files are not at the agency.

Recommendation

The agency should ensure that files are properly maintained and are accessible when needed by appropriate authorities. If the files must be transported to another location and if the agency anticipates an appropriate authority will need those files, the agency should make arrangements for the authority to view the files before they are moved.

Management's Comment

We concur. As stated in the details of this finding, the agency was directed by the Department of Children's Services to transfer all Assessment and Care Coordination Team case files to the appropriate departmental field office in conjunction with the implementation of its new integrated service delivery model. The department's Southeast Region, inclusive of our agency's program activities, was the first region within the state to undertake this transition process

beginning in July 1996. We were requested to expedite the requested file transfers to assure continuity of services to clientele, and we complied by effectively transferring somewhat more than 1,400 case files over an approximately two month period. We agree that we were remiss in not providing appropriate notice to the Comptroller's Office of this occurrence in order to provide the Division of State Audit the opportunity to review pertinent records. Our failure to provide such notice was purely a matter of oversight on the agency's part, and not a conscious attempt to avoid audit scrutiny. We wish to note that had we given appropriate notice of this transfer to the Comptroller's Office and the subject files had, in fact, been reviewed prior to their dispersal from our offices, we are of the opinion that the ACCT file discrepancies noted in Finding 2 would have been significantly diminished in view of the observation in the audit report for the prior year's period of our notable improvement in the maintenance of these records.

Independent Auditor's Report

March 10, 1998

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 Southeast Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, 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, 1997. 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 auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Southeast Community Services Agency as of June 30, 1997, and June 30, 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
March 10, 1998
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As discussed in Note 7 to the financial statements, the agency implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers," in conformity with generally accepted accounting principles.

The Schedule of Funding Progress for Southeast Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 1998, on our consideration of Southeast Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

AAH/th

SOUTHEAST COMMUNITY SERVICES AGENCY
 COMBINED BALANCE SHEETS
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997					June 30, 1996				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations		General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debit										
Assets:										
Cash (Note 2)	\$ 677,355.15	\$ -	\$ -	\$ -	\$ 677,355.15	\$ 449,777.12	\$ -	\$ -	\$ -	\$ 449,777.12
Investments	-	69,454.32	-	-	69,454.32	-	63,048.24	-	-	63,048.24
Prepaid items	1,383.80	-	-	-	1,383.80	6,403.29	-	-	-	6,403.29
Accounts receivable	1,181.07	-	-	-	1,181.07	6,409.98	-	-	-	6,409.98
General fixed assets (Note 4):	-	-	-	-	-	-	-	-	-	-
Furniture and equipment	-	-	180,687.00	-	180,687.00	-	-	148,938.24	-	148,938.24
Other debit:										
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	-	49,131.43	49,131.43	-	-	-	38,186.78	38,186.78
Total assets and other debit	\$ 679,920.02	\$ 69,454.32	\$ 180,687.00	\$ 49,131.43	\$ 979,192.77	\$ 462,590.39	\$ 63,048.24	\$ 148,938.24	\$ 38,186.78	\$ 712,763.65
Liabilities, Other Credit, and Fund Balances										
Liabilities:										
Accounts payable	\$ 62,531.68	\$ -	\$ -	\$ -	\$ 62,531.68	\$ 19,645.40	\$ -	\$ -	\$ -	\$ 19,645.40
Accrued payroll	69,872.04	-	-	-	69,872.04	60,611.28	-	-	-	60,611.28
Accrued payroll taxes and benefits	5,197.50	-	-	-	5,197.50	4,475.71	-	-	-	4,475.71
Accrued annual leave (Note 5)	-	-	-	49,131.43	49,131.43	-	-	-	38,186.78	38,186.78
Deferred revenue	21,000.00	-	-	-	21,000.00	-	-	-	-	-
Due to primary government (Note 3)	201,737.48	-	-	-	201,737.48	182,520.01	-	-	-	182,520.01
Amounts held in custody for others (Notes 1 and 8)	-	69,454.32	-	-	69,454.32	-	63,048.24	-	-	63,048.24
Total liabilities	360,338.70	69,454.32	-	49,131.43	478,924.45	267,252.40	63,048.24	-	38,186.78	368,487.42
Other credit:										
Investment in general fixed assets (Note 4)	-	-	180,687.00	-	180,687.00	-	-	148,938.24	-	148,938.24
Fund balances:										
Reserved for prepaid items	1,383.80	-	-	-	1,383.80	6,403.29	-	-	-	6,403.29
Unreserved fund balance	318,197.52	-	-	-	318,197.52	188,934.70	-	-	-	188,934.70
Total fund balances	319,581.32	-	180,687.00	-	500,268.32	195,337.99	-	148,938.24	-	344,276.23
Total liabilities and fund balances	\$ 679,920.02	\$ 69,454.32	\$ 180,687.00	\$ 49,131.43	\$ 979,192.77	\$ 462,590.39	\$ 63,048.24	\$ 148,938.24	\$ 38,186.78	\$ 712,763.65

The Notes to the Financial Statements are an integral part of this statement.

SOUTHEAST COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	<u>General Fund</u>	<u>General Fund</u>
	For the Year Ended <u>June 30, 1997</u>	For the Year Ended <u>June 30, 1996</u>
<u>Revenues</u>		
State grants and contracts	\$ 1,937,188.89	\$ 1,603,631.61
Interest revenue	33,526.79	28,287.69
Contract revenue	<u>288,155.61</u>	<u>223,665.55</u>
Total revenues	<u>2,258,871.29</u>	<u>1,855,584.85</u>
<u>Expenditures</u>		
Salaries and wages	1,079,187.99	1,031,667.80
Employee benefits and payroll taxes	293,003.01	266,615.44
Professional fees	205,055.61	237,769.62
Supplies	56,863.54	38,042.88
Telephone	40,479.38	40,509.05
Postage and shipping	8,907.42	9,789.42
Occupancy	78,781.55	75,962.34
Equipment rental and maintenance	58,911.74	55,475.87
Printing and publications	6,909.66	5,497.80
Employee travel	98,083.92	84,630.50
Conferences and meetings	14,069.50	3,771.00
Insurance	2,780.70	5,132.01
Grants and awards	139,845.37	-
Specific assistance to individuals	7,386.40	-
Equipment	40,506.76	16,955.32
Other	<u>3,855.41</u>	<u>3,216.70</u>
Total expenditures	<u>2,134,627.96</u>	<u>1,875,035.75</u>
Excess (deficit) of revenues over (under) expenditures	124,243.33	(19,450.90)
Fund balance, July 1	<u>195,337.99</u>	<u>214,788.89</u>
Fund balance, June 30	\$ <u><u>319,581.32</u></u>	\$ <u><u>195,337.99</u></u>

The Notes to the Financial Statements are an integral part of this statement.

SOUTHEAST COMMUNITY SERVICES AGENCY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1997</u>
<u>Assets</u>				
Investments	\$ <u>63,048.24</u>	\$ <u>18,984.12</u>	\$ <u>12,578.04</u>	\$ <u>69,454.32</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ <u>63,048.24</u>	\$ <u>18,984.12</u>	\$ <u>12,578.04</u>	\$ <u>69,454.32</u>

The Notes to the Financial Statements are an integral part of this statement.

Southeast Community Services Agency
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

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 Southeast 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 Southeast 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 Southeast 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.

Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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 is 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 Types

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

Expendable Trust Fund—used to account for activities of employee flexible benefit trusts whose principal and income may be used for the purposes of the trust.

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 capital leases and 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.

**Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

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 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 securi-

**Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

ties 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, 1997, the carrying amount of the agency's deposits was \$1,098.44, and the bank balance was \$22,470.55. The entire bank balance was insured.

At June 30, 1996, the carrying amount of the agency's deposits was \$952.67, and the bank balance was \$55,042.12. The entire bank balance was insured.

At June 30, 1997, and June 30, 1996, the agency had deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer of \$676,006.71 and \$448,724.45, respectively.

At June 30, 1997, and June 30, 1996, petty cash on hand was \$250.00 and \$100.00, respectively.

NOTE 3. DUE TO PRIMARY GOVERNMENT

	June 30, 1997
Due To:	
Department of Health—program funds	\$24,043.94
Department of Children's Services—program funds	85,872.57
Department of Children's Services	63,263.86
Department of the Treasury—retirement contributions	5,523.82
Department of Employment Security—unemployment taxes	116.29
Comptroller of the Treasury—audit fees	17,296.79
Department of Finance and Administration—Office for Information Resources	5,600.21
Department of Health—Vital Records	<u>20.00</u>
Total due to primary government	<u><u>\$201,737.48</u></u>

**Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

	June 30, 1996
Due To:	
Department of Health—program funds	\$ 18,942.13
Department of Children’s Services—program funds	148,088.60
Department of the Treasury—retirement contributions	4,694.71
Department of Employment Security—unemployment taxes	93.69
Department of Finance and Administration—Office for Information Resources	<u>10,700.88</u>
Total due to primary government	<u><u>\$182,520.01</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, 1997:

	Balance <u>July 1, 1996</u>	Additions	Deletions	Balance <u>June 30, 1997</u>
Furniture and equipment	<u>\$148,938.24</u>	<u>\$40,506.76</u>	<u>\$8,758.00</u>	<u>\$180,687.00</u>

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

	Balance <u>July 1, 1996</u>	Additions	Deletions	Balance <u>June 30, 1997</u>
Furniture and equipment	<u>\$131,982.92</u>	<u>\$16,955.32</u>	<u>\$ -</u>	<u>\$148,938.24</u>

**Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1997:

	<u>Balance July 1, 1996</u>	<u>Increases</u>	<u>Balance June 30, 1997</u>
Amount to be provided for retirement of general long-term obligations	<u>\$38,186.78</u>	<u>\$10,944.65</u>	<u>\$49,131.43</u>
Accrued annual leave	<u>\$38,186.78</u>	<u>\$10,944.65</u>	<u>\$49,131.43</u>

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

	<u>Balance July 1, 1995</u>	<u>Increases</u>	<u>Balance June 30, 1996</u>
Amount to be provided for retirement of general long-term obligations	<u>\$38,065.14</u>	<u>\$121.64</u>	<u>\$38,186.78</u>
Accrued annual leave	<u>\$38,065.14</u>	<u>\$121.64</u>	<u>\$38,186.78</u>

NOTE 6. OPERATING LEASES

The agency leases equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for equipment were \$889.50 for the year ended June 30, 1997, and \$756.00 for the year ended June 30, 1996. The leases were cancelable at the lessee's option.

The State of Tennessee has entered into cancelable lease agreements for space and 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 \$55,080.00 and \$50,117.22 for the year ended June 30, 1997, and were \$55,080.00

Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

and \$49,415.54 for the year ended June 30, 1996. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

NOTE 7. DEFINED BENEFIT PENSION PLAN

During the June 30, 1997, fiscal year, the agency implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the plan.

A. Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling 615-741-8202, ext. 139.

B. Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a noncontributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 7.91% of annual

**Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

covered payroll. The agency contributed \$83,865.36 (7.91% of current covered payroll) for the fiscal year ended June 30, 1997. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The agency's annual pension cost of \$83,865.36 for fiscal year 1997 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1995, was 23 years.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1997	\$83,865.36	100%	-

Information is shown only for the year available. Additional years will be shown as they become available.

Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

NOTE 8. DEFERRED COMPENSATION PLAN

The Southeast 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 \$68,543.29 at June 30, 1997, and \$49,727.63 at June 30, 1996.

Litigation—The agency is not involved in any lawsuits.

NOTE 10. DONATED FACILITIES

The Tennessee Department of Health donates office space, utilities, telephone service, copiers, and computer use and computers to the Southeast Community Services Agency. In addition, the Tennessee Department of Children's Services donates com-

Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

puters and computer use to the agency. The value of the donation is not recorded in the financial statements.

NOTE 11. 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 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 State of Tennessee's Claims Award Fund. 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

Southeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

percent of the total premiums. The employees are responsible for the remaining 20 percent of the total premiums. Claims are administered by Blue Cross 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. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee.

NOTE 12. PRIOR-PERIOD RECLASSIFICATION

The Southeast Community Services Agency implemented a new chart of accounts effective for the year ended June 30, 1997. For comparative purposes, several prior-year expenditure amounts were reclassified to conform with the new chart of accounts. The expenditure line items increased from 12 during the year ended June 30, 1996, to 16 during the year ended June 30, 1997. The expenditure line items affected include professional fees, supplies, telephone, postage and shipping, equipment rental and maintenance, printing and publications, conferences and meetings, insurance, specific assistance to individuals, and other.

SOUTHEAST COMMUNITY SERVICES AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR
 SOUTHEAST COMMUNITY SERVICES AGENCY

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/97	\$705,770	\$705,770	-	100%	\$1,060,245	-

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, which established subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

APPENDIX

SOUTHEAST COMMUNITY SERVICES AGENCY

Paul Lynch, Executive Director

BOARD OF DIRECTORS

Board Officers

Walter C. Hunt, Chair
Matilda G. Dunn, Vice-Chair
Gerald J. Layne, Treasurer
Bobbie McKenzie, Secretary

Executive Committee Members

Walter C. Hunt
Matilda G. Dunn
Gerald J. Layne
Bobbie McKenzie
Betsy Brown, Commissioner's Representative

Other Members of the Board of Directors

Ruth Gafford
Robert Lamb
Sue Robnett
Jenny Thomas
Jim Mercer
Howell Moss