

**Chattanooga - Hamilton County Community
Services Agency**

**For the Year Ended
June 30, 1998**

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December 1, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Chattanooga - Hamilton County Community Services Agency
Chattanooga, Tennessee 37403

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Chattanooga - Hamilton County Community Services Agency for the year ended June 30, 1998. 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 finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/rm
99/081

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Chattanooga - Hamilton County Community Services Agency
For the Year Ended June 30, 1998

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.

INTERNAL CONTROL AND COMPLIANCE FINDING

The Agency Should Obtain Collateral for Uninsured Deposits

The Chattanooga - Hamilton County Community Services Agency did not obtain collateral to secure its bank deposits (page 6).

The reportable condition, described above, was considered a material weakness. 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.

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
Chattanooga - Hamilton County Community Services Agency
For the Year Ended June 30, 1998

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**Chattanooga - Hamilton County Community Services Agency
For the Year Ended June 30, 1998**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Chattanooga - Hamilton 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, 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 Chattanooga - Hamilton County Community Services Agency’s administrative offices are in Chattanooga, Tennessee.

The governing body of the Chattanooga - Hamilton County Community Services Agency is the board of directors. As of June 30, 1998, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of three board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The Chattanooga - Hamilton County Community Services Agency has an agreement with the Health Services Division of Hamilton County government for the administrative and day-to-day management operations. All records, personnel, purchasing, accounting, and financial procedures are subject to the policies and procedures of Hamilton 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 prevail. The executive director is the custodian of the funds and reports to the chairman of the board and the board of directors on the status of the programs.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998; and for comparative purposes, the year ended June 30, 1997. The Chattanooga - Hamilton County 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.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Over Financial Reporting

As part of the audit of the agency's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted

government auditing standards. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed a material weakness.

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 the recommendations and management's responses, are included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Chattanooga - Hamilton County 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***

April 15, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Chattanooga - Hamilton County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated April 15, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the Chattanooga - Hamilton County Community Services 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*.

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

The Honorable John G. Morgan
April 15, 1999
Page Two

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 internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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: The agency did not obtain collateral for uninsured deposits. This condition is described in the Finding and Recommendation section of this report.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the Chattanooga - Hamilton County Community Services Agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

AAH/rm

FINDING AND RECOMMENDATION

The agency should obtain collateral for uninsured deposits

Finding

The Chattanooga - Hamilton County Community Services Agency did not obtain collateral to secure its bank deposits. The agency opened an operating bank account in July 1997 but did not ensure that deposits were collateralized. Several times throughout the fiscal year, funds were at risk. The greatest amount at risk was at June 24, 1998, when the agency's deposits were undercollateralized by \$394,806.76. This is a material weakness in internal control.

Section 9-4-504, *Tennessee Code Annotated*, states that "a qualified public depository shall maintain required collateral to secure public deposits." Also, Section 9-4-105 requires that the market value of collateral pledged equal one hundred and five percent (105%) of the uninsured deposits.

Although no losses were incurred as a result of the undercollateralization, agency funds that exceed Federal Deposit Insurance Corporation coverage could be lost in the event of bank failure.

Recommendation

The executive director should obtain collateral for uninsured deposits and ensure that the accounting staff frequently monitor deposit balances to ensure that adequate collateral is pledged at all times.

Management's Comment

We concur. We agree that the Agency was responsible for ensuring that all deposits were collateralized as stated in Section 9-4-504, *Tennessee Code Annotated*. The agency opened the operating bank account while under supervision of Hamilton County Government. At that time, representatives from Hamilton County Government failed to request that this operating account maintain required collateral. During the audit field work, the agency received confirmation from the bank that the operating account was not collateralized. Upon receiving this confirmation, the agency made application and received a "Public Depository Collateral Security Agreement" which secures all uninsured deposits by collateral.

Independent Auditor's Report

April 15, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Chattanooga - Hamilton County Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chattanooga - Hamilton County Community Services Agency as of June 30, 1998, and June 30, 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
April 15, 1999
Page Two

The Disclosure of Year 2000 Issues for Chattanooga - Hamilton County 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 addition, we do not provide assurance that Chattanooga - Hamilton County Community Services Agency is or will become year 2000 compliant, that Chattanooga - Hamilton County Community Services Agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Chattanooga - Hamilton County Community Services Agency does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 1999, on our consideration of Chattanooga - Hamilton County 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, JD, CFE, Director
Division of State Audit

AAH/rm

CHATTANOOGA - HAMILTON COUNTY COMMUNITY SERVICES AGENCY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

| | General Fund | |
|--------------------------------------|----------------------|----------------------|
| | June 30, 1998 | June 30, 1997 |
| <u>Assets</u> | | |
| Cash (Note 2) | \$ 505,913.43 | \$ 354,358.85 |
| Prepaid item | - | 1,000.00 |
| Due from primary government (Note 3) | 36.00 | 36.00 |
| Total assets | \$ <u>505,949.43</u> | \$ <u>355,394.85</u> |
| <u>Liabilities and fund balance</u> | | |
| Liabilities: | | |
| Due to primary government (Note 3) | \$ 115,239.35 | \$ 137,954.75 |
| Due to local government | 257,277.33 | 124,548.43 |
| Total liabilities | <u>372,516.68</u> | <u>262,503.18</u> |
| Fund balance: | | |
| Reserved for prepaid item | - | 1,000.00 |
| Unreserved | 133,432.75 | 91,891.67 |
| Total fund balance | <u>133,432.75</u> | <u>92,891.67</u> |
| Total liabilities and fund balance | \$ <u>505,949.43</u> | \$ <u>355,394.85</u> |

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

CHATTANOOGA - HAMILTON COUNTY COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

| | General Fund | |
|---|--|--|
| | For the Year Ended June 30, 1998 | For the Year Ended June 30, 1997 |
| <u>Revenues</u> | | |
| State grants and contracts | \$ 1,438,455.56 | \$ 1,454,041.26 |
| Interest | 40,831.26 | 22,397.40 |
| Total revenues | <u>1,479,286.82</u> | <u>1,476,438.66</u> |
| <u>Expenditures</u> | | |
| Grants and subsidies | <u>1,438,745.74</u> | <u>1,451,536.28</u> |
| Total expenditures | <u>1,438,745.74</u> | <u>1,451,536.28</u> |
| Excess of revenues over expenditures | <u>40,541.08</u> | <u>24,902.38</u> |
| Fund balance, July 1 | <u>92,891.67</u> | <u>67,989.29</u> |
| Fund balance, June 30 | <u>\$ 133,432.75</u> | <u>\$ 92,891.67</u> |

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

Chattanooga - Hamilton County Community Services Agency
Notes to the Financial Statements
June 30, 1998, and June 30, 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission 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 Hamilton County CSA works in conjunction with the Tennessee Department of Children's Services and the Hamilton County government to coordinate "funds or programs designated for care of children and other citizens in the state."

The legislation did not affect factors considered in determining reporting status. Title 37, Chapter 5, of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The Chattanooga - Hamilton 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).

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).

Basis of Accounting

The financial records of the Chattanooga - Hamilton 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.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This 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.

Chattanooga - Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

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

Prepaid Items

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

NOTE 2. DEPOSITS

The laws of the State of Tennessee require that state deposits be secured by collateral securities with a market value of 105% of the face of the deposit not secured by Federal Deposit Insurance (FDIC) coverage.

Deposits with financial institutions must be categorized to indicate the level of risk assumed by the agency. Category 1 consists of deposits that are insured or collateralized with securities held by the agency or by its agent in the agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the agency's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the agency's name.

At June 30, 1998, the carrying amount of the agency's deposits was \$329.82, and the bank balance including accrued interest was \$135,083.78. Of the bank balance, \$100,000.00 was category 1 and \$35,083.78 was category 3. At various times during the fiscal year, deposits were undercollateralized. The greatest amount at risk was \$394,806.76.

The agency had \$505,383.61 on deposit at June 30, 1998, in the State of Tennessee Local Government Investment Pool, administered by the State Treasurer, and \$354,358.85 at June 30, 1997.

At June 30, 1998, petty cash on hand was \$200.00.

Chattanooga - Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1998

| | | |
|------------------------------------|----|--------------|
| Due From: | | |
| Department of Health—program funds | \$ | <u>36.00</u> |

| | | |
|---|----|-------------------|
| Due To: | | |
| Department of Children’s Services—program funds | \$ | <u>115,239.35</u> |

June 30, 1997

| | | |
|------------------------------------|----|--------------|
| Due From: | | |
| Department of Health—program funds | \$ | <u>36.00</u> |

| | | |
|---|----|-------------------|
| Due To: | | |
| Department of Children’s Services—program funds | \$ | <u>137,954.75</u> |

Chattanooga - Hamilton County Community Services Agency
Required Supplementary Information
Disclosure of Year 2000 Issues

The Year 2000 Issue (Y2K) arises because many computer software programs allocate two digits to the data field for year with the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent programming logic to the contrary. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could affect both the ability to enter data into computer programs and the ability of such programs to correctly process data.

Chattanooga - Hamilton County Community Services Agency has examined the impact of Y2K on its computer systems and other electronic equipment critical to conducting operations as of June 30, 1998. "Computer systems" are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. "Other electronic equipment" is defined as any electronic hardware with embedded processors such as fax machines and telephone systems.

Chattanooga - Hamilton County Community Services Agency has identified its administrative computer network, Cougar Mountain Software, System Backups, and Agency Banking Systems, as computer systems and other equipment critical to conducting operations which are under the agency's administration. The agency is subjecting those systems to the following stages of work to address Y2K issues.

| | |
|---------------------------------|---|
| <i>Awareness stage</i> | Establishing a budget and project plan for dealing with the Y2K issue. |
| <i>Assessment stage</i> | Identifying the systems and components for which Y2K compliance work is needed. |
| <i>Remediation stage</i> | Making changes to systems and equipment. |
| <i>Validation/testing stage</i> | Validating and testing the changes that were made during the remediation stage. |

As of June 30, 1998, Chattanooga - Hamilton County Community Services Agency was in the awareness stage for each of these systems. The agency expects to complete the remaining stages of work by July 1, 1999. However, completion of these stages will not guarantee that systems and equipment will be Y2K compliant.

The state provided the Client Operation and Review System and computer network systems which are utilized by Chattanooga - Hamilton County Community Services Agency under the administrative assistance of the Department of Children's Services. The agency has begun soliciting information from the department and other organizations regarding the status of its assessment, remediation, and testing of its computer systems whose Y2K compliance could affect

Chattanooga - Hamilton County Community Services Agency
Required Supplementary Information (Cont.)
Disclosure of Year 2000 Issues

the agency's operations. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on Chattanooga - Hamilton County Community Services Agency's operations or financial status, although no assurances can be given that circumstances will not change. The agency does not have full and complete information from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a materially negative impact on the agency's operations or financial status.

The Chattanooga - Hamilton County Community Services Agency's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period. The agency is not aware of any circumstances or significant costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the agency.

APPENDIX

CHATTANOOGA - HAMILTON COUNTY COMMUNITY SERVICES AGENCY

Paul Lynch, Acting Executive Director

BOARD OF DIRECTORS

Executive Committee Members

Jo Ann Yates, Chair
Mary Joyce Gee, Vice-Chair
Faye Smartt, Treasurer

Other Members of the Board of Directors

Chris Albright
Gary Behler
Valerie A. Boaz, M.D.
Kaye Greer
Dee Anne Irwin
Jackie Jolley
Brent Morris, M.D.
Charles Peavyhouse
Tommy Perkins
Bernandine Turner