

**SOUTHWEST HUMAN RESOURCE AGENCY**

**FOR THE YEAR ENDED  
JUNE 30, 1995**

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Editor

November 4, 1996

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Southwest Human Resource Agency  
Henderson, Tennessee 38340

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Southwest Human Resource Agency for the year ended June 30, 1995. 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.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/cr  
96/067

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Southwest Human Resource Agency**  
For the Year Ended June 30, 1995

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## 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 AND COMPLIANCE FINDING

### **Controls Over the Property Management System Were Inadequate**

The agency had numerous weaknesses in its property management system. These weaknesses included the failure to reconcile property records with accounting records, to maintain a complete property listing, to properly tag equipment, and to complete an annual physical inventory (page 19).

## COMPLIANCE FINDING

### **The Agency Improperly Charged Association Dues to Federal Grant Programs**

The agency charged to federal programs dues to an association which devotes a substantial portion of its expenditures to a lobbyist (page 22).

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"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

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AUDIT REPORT  
SOUTHWEST HUMAN RESOURCE AGENCY  
FOR THE YEAR ENDED JUNE 30, 1995

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SOUTHWEST HUMAN RESOURCE AGENCY  
FOR THE YEAR ENDED JUNE 30, 1995

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Southwest Human Resource Agency. The audit was conducted pursuant to Section 13-26-106, *Tennessee Code Annotated*, which states:

The annual report, including financial statements, and all books of account and financial records shall be subject to annual audit by the comptroller of the treasury. A human resource agency may, with the prior approval of the comptroller, engage licensed independent public accountants to perform the audits.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the agency's internal control structure to determine auditing procedures for the purpose of expressing opinions on the financial statements and on compliance with specific requirements applicable to major federal financial assistance programs;
2. to test controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures applicable to major federal financial assistance programs;
3. to determine the fairness of the presentation of the financial statements;
4. to determine the fairness of the presentation of the supplementary information, in all material respects, in relation to the agency's financial statements taken as a whole;
5. to determine compliance with laws, regulations, contracts, and grants;
6. to determine compliance with specific requirements applicable to major federal financial assistance programs;
7. to test compliance with general requirements applicable to federal financial assistance programs;

8. to test compliance with specific requirements applicable to nonmajor federal financial assistance program transactions; and
9. to recommend appropriate actions to correct any deficiencies.

## **SCOPE OF THE AUDIT**

The audit is limited to the period July 1, 1994, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1995, and for comparative purposes, the year ended June 30, 1994.

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## **BACKGROUND AND ORGANIZATION**

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### **BACKGROUND**

Tennessee's nine human resource agencies were created by Chapter 289 of the Public Acts of 1973, known as the Human Resource Agency Act of 1973, and operate under the authority of Title 13, Chapter 26, as amended, of *Tennessee Code Annotated*. This legislation provides a regional system to deliver human resource programs in the state's counties and cities.

The Southwest Human Resource Agency was established in July 1972, and comprises the following counties: Chester, Decatur, Hardeman, Hardin, Haywood, Henderson, McNairy, and Madison. The agency's administrative offices are in Henderson, Tennessee.

### **ORGANIZATION**

The governing body of the Southwest Human Resource Agency is the board of directors. As of June 30, 1995, the board was composed of 57 members. (See Appendix.)

The agency's programs are carried out by a staff under the supervision of the executive director, who is appointed by the board of directors. For the year ended June 30, 1995, the

major programs in which the Southwest Human Resource Agency was involved and the grantor agencies that provided the major funding for the programs are presented below.

<u>Program</u>	<u>Grantor</u>
Public Transportation for Nonurbanized Areas (Section 18)	Tennessee Department of Transportation
Special Programs for the Aging - Title III, Part C - Nutrition Services	Southwest Tennessee Development District
Low - Income Home Energy Assistance	Tennessee Department of Human Services
Community Services Block Grant - Discretionary Awards - Community Food and Nutrition	Tennessee Department of Human Services
Head Start	U.S. Department of Health and Human Services

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#### PRIOR AUDIT FINDINGS

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#### RESOLVED AUDIT FINDINGS

The current audit disclosed that the agency has corrected previous audit findings concerning approval of Comprehensive Emergency Assistance payments and Emergency Food and Shelter final expenditure reports that did not agree with agency accounting records.

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#### RESULTS OF THE AUDIT

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#### AUDIT CONCLUSIONS

##### Internal Control Structure

As part of the audit of the agency's financial statements for the year ended June 30, 1995, 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, and an opinion on compliance with specific requirements applicable to major federal financial assistance programs, as required by the Single Audit Act. In addition, controls

were tested to evaluate the effectiveness of the design and operation of internal control structure policies and procedures applicable to major federal financial assistance programs. The reports on the internal control structure are 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 compliance reports. Consideration of the internal control structure disclosed no material weaknesses.

#### Fairness of Presentation of the Financial Statements and Supplementary Information

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements. In our opinion, the statements in this report present fairly, in all material respects, the financial position of the agency at June 30, 1995, and the results of its operations for the year then ended.

In our opinion, the supplementary information in this report is fairly presented, in all material respects, in relation to the financial statements of the agency taken as a whole. The independent auditor's report follows the Schedule of Noncompliance and Questioned Costs.

#### Compliance with Laws and Regulations

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

In our opinion, the agency complied, in all material respects, with the specific requirements applicable to each of its major federal financial assistance programs.

Immaterial instances of noncompliance, along with the recommendations and management's responses, are included in the findings and recommendations. All identified instances of noncompliance with laws, regulations, contracts, and grants connected with federal financial assistance programs are reported in the Schedule of Noncompliance and Questioned Costs in this report. The compliance reports follow the reports on the internal control structure.

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

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 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, 1995, 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  
June 14, 1996  
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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 one matter 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 the assertions of management in the financial statements.

The following reportable condition was noted: Controls over the property management system were inadequate. 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, management, and the appropriate grantor agencies. 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

**Single Audit Report on the Internal Control  
Structure Used in Administering Federal  
Financial Assistance Programs**

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 1996. We have also audited the agency's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated June 14, 1996.

We conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the agency complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit for the year ended June 30, 1995, we considered the agency's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the agency's financial statements and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated June 14, 1996.

The Honorable W. R. Snodgrass  
June 14, 1996  
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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, 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, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Accounting Applications

- Receivables
- Cash receipts
- Purchasing
- Payables
- Cash disbursements
- Payroll
- Inventory
- Property and equipment
- General ledger

We have classified the significant controls used in administering federal financial assistance programs in the following categories:

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles

The Honorable W. R. Snodgrass

- Drug-free workplace
- Administrative requirements

Specific Requirements

- Types of services
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1995, the agency expended 72 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the agency's major federal financial assistance programs, which are identified in the accompanying schedules of financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted one matter 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 administer federal financial assistance programs in accordance with the applicable laws and regulations.

The Honorable W. R. Snodgrass  
June 14, 1996  
Page Four

The following reportable condition was noted: Controls over the property management system were inadequate. 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 internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 policies and procedures used in administering federal financial assistance 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, management, and the appropriate grantor agencies. 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

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

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 1996.

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

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

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

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain

The Honorable W. R. Snodgrass  
June 14, 1996  
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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, management, and the appropriate grantor agencies. 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

**Single Audit Opinion on Compliance With Specific  
Requirements Applicable to Major Federal Financial  
Assistance Programs**

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 1996.

We have also audited the agency's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedules of financial assistance, for the year ended June 30, 1995. The agency's management is responsible for the agency's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The Honorable W. R. Snodgrass  
June 14, 1996  
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The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Non-compliance and Questioned Costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the agency complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1995.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, management, and the appropriate grantor agencies. 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

**Single Audit Report on Compliance With the  
General Requirements Applicable to  
Federal Financial Assistance Programs**

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 1996.

We have applied procedures to test the agency's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedules of financial assistance, for the year ended June 30, 1995: political activity, Davis-Bacon Act, civil rights, cash management, federal financial reports, allowable costs/cost principles, drug-free workplace, and administrative requirements.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the agency's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the agency had not complied, in all material respects, with those requirements. However, the results

The Honorable W. R. Snodgrass

June 14, 1996

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of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Noncompliance and Questioned Costs.

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, management, and the appropriate grantor agencies. 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

**Single Audit Report on Compliance With Specific Requirements  
Applicable to Nonmajor Federal Financial  
Assistance Program Transactions**

June 14, 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 Southwest Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 14, 1996.

In connection with our audit of the financial statements of the agency and with our consideration of the agency's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed, eligibility, and special tests and provisions that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the agency's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe the agency had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Noncompliance and Questioned Costs.

The Honorable W. R. Snodgrass  
June 14, 1996  
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This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, management, and the appropriate grantor agencies. 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

### CONTROLS OVER THE PROPERTY MANAGEMENT SYSTEM WERE INADEQUATE

#### 1. FINDING:

The Southwest Human Resource Agency needs to improve its property management system. Weaknesses were noted in the following areas:

- a. Reconciling the Accounting Records with the Inventory Records — The fiscal officer did not reconcile the agency’s accounting records with the inventory records. Over 50 items acquired during the year were incorrectly valued on the property list. In addition, numerous expenditures were misclassified in the accounting records. As a result, several adjustments to the property listing, the expenditure accounts, and the general fixed assets account group were necessary.

The fiscal officer apparently did not ensure that the program directors followed the agency’s capitalization policies when coding purchases. Furthermore, the property officer did not properly exclude purchase discounts and rebates or include shipping and handling when valuing equipment items.

Section .20(b)(3) of the Office of Management and Budget’s “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)” states, “Effective control and account-ability must be maintained for all grant and subgrant cash, real and personal property, and other assets.”

The agency’s control over its fixed assets is greatly diminished when neither the property records nor the accounting records accurately reflect acquisitions and disposals.

- b. Maintaining a Complete and Accurate Property Listing — Information on the agency’s property listing was incomplete and incorrect. Condition information was not included for the vehicles and radio equipment, and the percentage of federal participation in the cost of the property was not included for any items. For 192 of 583 items (32.93%), the serial numbers for applicable items were not included on the listing. The funding source, the location of the property, and the acquisition date were not included for every item. Testwork revealed that agency employees moved equipment from one location to another without informing the property officer, and when they did report equipment transfers, they did not use the property inventory adjustment forms. Additionally, the acquisition date on the

property listing was actually the date of payment rather than the date the item was received.

Section .32(d)(1) of the Office of Management and Budget's "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)" states:

Property records must be maintained that include a description of the property, a serial number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, the use, and condition of the property, and any ultimate disposition date including the date of disposal and sale price of the property.

If management does not maintain a complete property listing, its control over fixed assets is lessened.

- c. Tagging Equipment — Some items were not tagged immediately upon receipt in the central office, and property items in the satellite offices were only tagged annually. Three of 10 high dollar items tested (30%) and an additional six of 34 items tested (18%) had either no tag or the wrong tag number attached. If equipment is not tagged properly, the agency's assets may not be identified.
- d. Taking a Physical Inventory — According to the job description, the property officer is required to "make a physical inventory twice a year at all locations." A complete physical inventory was not performed for fiscal year 1995 because 128 of 583 items on the agency's property listing (22%) were not visually inspected and were, therefore, not included on the physical inventory.

As a result of the incomplete inventory, the agency was unable to reconcile the physical inventory with the property records. The *Accounting Manual for Recipients of Grant Funds in Tennessee* requires that physical inventories of equipment agree with property records and general ledger accounts.

If physical inventories are not complete and adequately documented, these three records will not agree. Also, failure to conduct a thorough inventory increases the likelihood that undetected loss or theft of items may occur.

- e. Disposing of Equipment — The property inventory adjustment forms for the disposal of property were not used properly. These forms should have been completed when an item was removed from inventory, but they were not completed

until the physical inventory was taken in October 1995. Additionally, the adjustment forms did not include a space for the disposition date and the method of disposition.

If forms for the disposal of property are not completed timely and properly, items could be lost or stolen without the agency's knowledge.

Inadequate controls over the property management system could result in the undetected loss, damage, or theft of the agency's fixed assets. Furthermore, failure to properly record and identify all fixed assets could cause the agency to purchase property it does not need.

RECOMMENDATION:

The agency should strengthen its internal controls over equipment to comply with federal and state property requirements. Written procedures should provide guidance on all aspects of property record maintenance. The property officer should ensure that physical inventories are complete and should reconcile the physical inventory with the property records. The fiscal officer should ensure that the program directors adhere to the agency's capitalization policies when coding purchases. The property officer and the fiscal officer should reconcile the property listing with the accounting records and ensure that the items on the listing are valued correctly.

MANAGEMENT'S COMMENT:

We concur. New procedures have been implemented for equipment capitalization and inventory. Each program director is responsible for completing a property control sheet for each new purchase. It is submitted to the fiscal department when the invoice is sent for payment. These sheets are given to the property officer so that they can be entered on the property inventory listing and a tag number is assigned. A report is compiled quarterly for review by the fiscal director.

The property officer has been instructed on the proper procedures for recording cost and reconciling to the general ledger and property listing. In addition, all program directors are responsible for notifying the property officer when items are moved from one location to another or when the item needs to be removed from inventory by completing the proper forms.

A report of the results of the bi-annual inventory will be submitted to the fiscal director for review and needed corrective action.

THE AGENCY IMPROPERLY CHARGED ASSOCIATION DUES TO FEDERAL  
GRANT PROGRAMS

2. FINDING:

The agency paid dues to the Tennessee Association of Human Resource Agencies and then charged these dues to the administrative cost pool. During the association's 1994 fiscal year, 19.7% of its total expenditures (53% of dues revenue) went to a lobbyist, and during the following year, 23.5% of its total expenditures (75% of dues revenue) went to a lobbyist.

Circular A-87 of the Office of Management and Budget, Attachment B, Section A.19.a, states that the "cost of membership in civic, business, technical and professional organizations is allowable provided . . . (4) the expenditure is not for membership in an organization which devotes a substantial portion of its activities to influencing legislation."

Association dues of \$1,673.58 were questioned because they were allocated to federal grant programs.

RECOMMENDATION:

As long as the Tennessee Association of Human Resource Agencies employs a lobbyist whose fees represent a substantial portion of the association's expenditures, the agency should not charge its dues to federal financial assistance programs.

MANAGEMENT'S COMMENT:

We concur. The Southwest Human Resource Agency has refunded all disallowed costs to the grantors. The agency, anticipating this finding, made no dues payment to the Tennessee Association of Human Resource Agencies for the year ended June 30, 1996. It is and has been our opinion that the association not only is in violation of Circular A-87, but, by exceeding the 15% allowable lobbying fees for a not-for-profit under Internal Revenue Service (IRS) rules, has jeopardized its tax exempt status under IRS Code Section 501(c)(3). No dues will be paid to the association utilizing grantor funds.







## **Independent Auditor's Report**

June 14, 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 Southwest Human Resource Agency as of June 30, 1995, and June 30, 1994, and the related combined 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 Southwest Human Resource Agency as of June 30, 1995, and June 30, 1994, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying supplementary information on pages 48 through 56 is presented for purposes of additional analysis and is not a required part of the agency's financial

The Honorable W. R. Snodgrass  
June 14, 1996  
Page Two

statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements, taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued reports dated June 14, 1996, regarding our consideration of the agency's internal control structure and its compliance with laws and regulations.

Sincerely,

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

AAH/cr









SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Southwest Human Resource Agency was established in 1972 in accordance with Title 13, Chapter 26, as amended, of *Tennessee Code Annotated*. This legislation provides a regional system to deliver human resource programs in the state's counties and cities. It is governed by a 57-member governing board. The board consists of the county executives and mayors within the area served by the agency, one state senator, and one state representative whose districts lie wholly or in part within the area served by the agency, and members appointed by the county executive – One from each county served by the agency. For financial reporting purposes, the agency includes all activities over which the Board of Directors is financially accountable.

**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.

**FUND STRUCTURE, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS**

The financial records of the agency are maintained on the cash basis of accounting. At year-end, the books are adjusted to the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

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

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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The financial activities of the agency reported in the accompanying financial statements are classified into two fund types and two account groups:

Governmental Fund Types

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

*Special Revenue Fund* — used to account for resources received under cost-reimbursement grant agreements.

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. Fixed assets are recorded at acquisition cost and are shown as expenditures at the time of purchase. They are not depreciated. Donated fixed assets are recorded at estimated fair value at the date of donation.

*General Long-Term Debt Account Group (GLTDAG)*—used to account for the agency’s capital leases. The GLTDAG is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency’s noncurrent liabilities.

**BUDGETARY PROCESS**

The agency does not have an annual appropriated budget. The grant documents serve as the financial plans for budgetary purposes.

**TOTALS (MEMORANDUM ONLY)**

The total columns of the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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PREPAID ITEMS

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

**NOTE 2. CONTINGENCIES**

Sick Leave — The agency records the cost of sick leave when paid; therefore, there is no liability in the accompanying financial statements for unpaid accumulated sick leave. Since sick leave is generally paid only when an employee 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 \$490,771.82 at June 30, 1995, and \$440,110.39 at June 30, 1994.

Litigation — The agency is involved in two lawsuits, neither of which is expected to have a material effect on the accompanying financial statements.

**NOTE 3. DEPOSITS**

Deposits with financial institutions are required to 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, 1995, the carrying amount of the agency's deposits was \$320,959.93, and the bank balance was \$634,452.82. Of the bank balance, \$122,933.67 was category 1, and \$511,519.15 was category 2.

At June 30, 1994, the carrying amount of the agency's deposits was \$217,744.64, and the bank balance was \$442,167.31. Of the bank balance, \$116,736.89 was category 1, and \$325,430.42 was category 2. From July 1, 1993, through February 16, 1994, the agency had uncollateralized amounts as high as \$813,556.96. The uncollateralized amounts related to a court decision by the U.S. Court of Appeals for the Eighth Circuit which raised a question about the enforceability of security interests in collateral pledged to secure deposits held in financial institutions. The court decision was based on Section 1823(e) of the

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Because the agency's agreement did not meet the requirements outlined in Section 1823(e) of the act, it is uncertain whether the agency had any priority claim to the collateral pledged to secure deposits in excess of FDIC insurance coverage. The agency's agreement was revised as of February 17, 1994, to meet those new requirements.

**NOTE 4. INTERFUND RECEIVABLE/PAYABLE ACCOUNTS**

These accounts represent the amount owed to the general fund by the special revenue fund because operating cash had been transferred to the special revenue fund to cover its negative cash balance at year-end.

**NOTE 5. FIXED ASSETS**

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

	Balance <u>July 1, 1994</u>	<u>Adjustments</u>	Adjusted Balance <u>July 1, 1994</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 1995</u>
Furniture and equipment	\$ 260,620.14	\$ -	\$ 260,620.14	\$ 87,163.95	\$11,220.56	\$ 336,563.53
Vehicles	874,963.38	-	874,963.38	177,946.99	14,583.00	1,038,327.37
Communications equipment	117,420.45	-	117,420.45	3,880.00	-	121,300.45
Leased equipment	21,326.68	18,621.00	39,947.68	-	-	39,947.68
Leasehold improvements	334,593.91	-	334,593.91	41,376.13	-	375,970.04
Land	8,324.00	-	8,324.00	-	-	8,324.00
Buildings	79,984.33	-	79,984.33	-	-	79,984.33
<b>Totals</b>	<u>\$1,697,232.89</u>	<u>\$18,621.00</u>	<u>\$1,715,853.89</u>	<u>\$310,367.07</u>	<u>\$25,803.56</u>	<u>\$2,000,417.40</u>

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

The following changes in general fixed assets occurred during the year ended June 30, 1994:

	Balance July 1, 1993	Additions	Deletions	Reclassifications	Balance June 30, 1994
Furniture and equipment	\$ 218,414.03	\$ 48,071.11	\$ 9,490.00	\$ 3,625.00	\$ 260,620.14
Vehicles	863,942.49	137,510.20	126,489.31	-	874,963.38
Communications equipment	114,910.45	2,805.00	295.00	-	117,420.45
Leased equipment	3,625.00	21,326.68	-	(3,625.00)	21,326.68
Leasehold improvements	198,374.58	136,219.33	-	-	334,593.91
Land	8,324.00	-	-	-	8,324.00
Buildings	79,984.33	-	-	-	79,984.33
<b>Totals</b>	<u>\$1,487,574.88</u>	<u>\$345,932.32</u>	<u>\$136,274.31</u>	<u>\$ -</u>	<u>\$1,697,232.89</u>

**NOTE 6. RESERVED FUND BALANCE**

The reserved fund balance as of June 30, 1995, was \$265,373.38. This amount includes \$12,774.51 of funds for the Housing Opportunities Using State Encouragement (HOUSE) program. These HOUSE program funds are remittances from clients that the agency must use for rehabilitation or down payment costs.

Two components of reserved fund balance were the transfers of special revenue funds for the payment of Transportation and Head Start equipment purchases. The grantor provides funding for the equipment during the fiscal year the goods are requisitioned, although they will not be received until the subsequent fiscal year. At June 30, 1995, a reserve of the general fund was established for \$66,484.00 for Transportation equipment purchases and \$140,280.87 for Head Start leasehold improvements and equipment and supplies purchases.

The fourth component of reserved fund balance was the transfer of special revenue funds for the payment of audit costs. Certain grantors will provide funding for their share of audit costs during the fiscal year subject to the audit. At June 30, 1995, a reserve of the general fund was established for \$45,834.00. The balance consists of the following grants and funds:

SOUTHWEST HUMAN RESOURCE AGENCY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1995, AND JUNE 30, 1994

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	<u>Amount Reserved</u>
Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part C - Nutrition Services	\$12,424.00
Tennessee Department of Transportation and Southwest Tennessee Development District: Transportation and Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	9,907.00
U.S. Department of Health and Human Services: Head Start	13,560.00
Jackson State Community College: Job Training Partnership Act - Title II-A	1,350.00
ACTION: Foster Grandparent Program	2,765.00
Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals	1,010.00
Tennessee Housing Development Agency: Housing Opportunities Using State Encouragement Program	3,165.00
Tennessee Department of Agriculture: Emergency Food Assistance Program	904.00
Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	<u>749.00</u> <u>\$45,834.00</u>

SOUTHWEST HUMAN RESOURCE AGENCY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1995, AND JUNE 30, 1994

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The reserved fund balance as of June 30, 1994, was \$74,835.82. This amount represents \$11,667.82 of funds reserved for the HOUSE program, \$15,158.00 of funds reserved for Transportation equipment purchases, \$2,025.00 of funds reserved for Head Start equipment purchases, and \$45,985.00 of funds reserved for audit costs.

**NOTE 7. OPERATING LEASES**

The agency leases office space to carry out its activities and to administer the various grant programs. The lease, which expired June 30, 1995, required monthly rental payments of \$3,244.80. During the year ended June 30, 1995, the agency rented 15,000 square feet of office space at a cost of \$38,937.60. Payments for other leases during the year totaled \$38,731.00.

During the year ended June 30, 1994, the agency rented office space at a cost of \$37,440.00. Payments for other leases during that year totaled \$35,284.23.

All leases are cancelable at the agency's option.

**NOTE 8. CAPITAL LEASES**

The following is an analysis of the property under capital leases by major classes:

<u>Property</u>	<u>Asset Balances at June 30</u>		
	<u>1995</u>	<u>1994</u> <u>(as restated)</u>	<u>1994</u> <u>(as previously reported)</u>
Mail Machine	\$ 3,644.00	\$ 3,644.00	\$ -
Computer Equipment	14,977.00	14,977.00	-
Copy Machines	<u>21,326.68</u>	<u>21,326.68</u>	<u>21,326.68</u>
Totals	<u>\$39,947.68</u>	<u>\$39,947.68</u>	<u>\$21,326.68</u>

SOUTHWEST HUMAN RESOURCE AGENCY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1995, AND JUNE 30, 1994

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The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1995:

Year Ending <u>June 30</u>	
1996	\$14,713.20
1997	<u>9,113.24</u>
Total minimum lease payments	<u>23,826.44</u>
Less: Amount representing interest	<u>(2,087.94)</u>
Present value of net minimum lease payments	<u><u>\$21,738.50</u></u>

**NOTE 9. LEASEHOLD IMPROVEMENTS**

During the year ended June 30, 1995, the agency expended \$41,376.13 for leasehold improvements. Expenditures of \$1,300.00 were payments for Head Start building site preparation in Bolivar, Tennessee. The remaining expenditures of \$40,076.13 were for building improvements of Head Start centers in Bolivar, Decatur County, Stanton, Reagan, and Lexington, Tennessee. Head Start pays rent for the use of the buildings in Reagan and Decatur County. The use of land and buildings for the other Head Start sites is donated by various churches and city and county governments and is recorded as in-kind contributions in the financial statements.

During the year ended June 30, 1994, the agency expended \$136,219.33 for leasehold improvements. Expenditures of \$111,405.00 were payments for Head Start building construction and site preparation in Parsons and Adamsville, Tennessee. The remaining \$24,814.33 was for improvements to Head Start buildings in Hardin County, Parsons, Henderson, and Adamsville, Tennessee. Head Start pays rent for the use of the building in Hardin County. The use of the land and buildings for the other Head Start sites is donated by various churches and city and county governments and is recorded as in-kind contributions in the financial statements.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 10. GENERAL LONG-TERM DEBT**

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

	Balance July 1, <u>1994</u>	<u>Adjustments</u>	Adjusted Balance July 1, 1994	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>1995</u>
Capital leases	<u>\$18,149.45</u>	<u>\$15,385.49</u>	<u>\$33,534.94</u>	<u>\$ -</u>	<u>\$11,796.44</u>	<u>\$21,738.50</u>

The following changes in general long-term debt occurred during the year ended June 30, 1994:

	Balance July 1, <u>1993</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>1994</u>
Capital leases	<u>\$1,146.91</u>	<u>\$21,326.68</u>	<u>\$4,324.14</u>	<u>\$18,149.45</u>

**NOTE 11. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

Beginning January 1, 1994, after successful completion of a six-month probationary period, all full-time employees of the agency become 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 subdivision in the state. The agency participates in the TCRS as a political subdivision and is liable for the costs associated with the operation and administration of its plan. The agency's payroll for employees covered by the plan for the year ended June 30, 1995, was \$1,742,490, and total payroll was \$2,257,831. The agency's payroll for employees covered by the plan for the period January 1 through June 30, 1994, was \$715,440, and total payroll was \$1,046,430.

The TCRS administers a defined benefit retirement plan covering teachers and general employees of the state, higher education employees, and employees of

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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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 de-termined by a formula using the member's high five-year average salary and years of service. Members may retire at age 60 with five years' service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members are vested after five years of service. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefit provisions are established and amended by state statute. Amendments to the TCRS plan are not applicable to a political subdivision unless approved by the political subdivision's governing body.

As authorized by the agency's board of directors, the agency's plan is contributory whereby the employee contributes 5.00% of his or her earnable compensation, and the employer is responsible for the remaining contribution. The agency currently contributes 6.57% of earnable compensation.

**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. 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

SOUTHWEST HUMAN RESOURCE AGENCY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1995, AND JUNE 30, 1994

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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 unfunded pension benefit obligation applicable to agency employees was \$63,690 at June 30, 1995, as follows:

	<u>June 30, 1995</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits	\$ 22,866
Current employees:	
Accumulated employee contributions including allocated investment earnings	110,032
Employer-financed vested	114,619
Employer-financed nonvested	<u>90,397</u>
Total pension benefit obligation	337,914
Net assets available for benefits, at cost or amortized cost (market value is \$297,582 at June 30, 1995)	<u>274,224</u>
Unfunded pension benefit obligation	<u>\$ 63,690</u>

Pension benefit obligation and related disclosure at June 30, 1994, are not available. The initial actuarial valuation to determine the board's rate (a percent of payroll) became effective January 1, 1994, when the agency's participation began. This rate will remain in effect until the June 30, 1997, valuation.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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**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 which began on January 1, 1994. 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, 1995, of \$201,607 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) \$74,404 in normal costs (4.27% of current covered payroll), (b) \$34,850 in amortization of the unfunded actuarial accrued liability (2.00% of current covered payroll), and (c) \$5,227 in administrative costs (.30% of current covered payroll). The agency contributed \$114,482 (6.57% of current covered payroll); employees contributed \$87,125 (5.00% of current covered payroll). The actuarial valuation as of June 30, 1993, computed contribution rates effective July 1, 1994, through June 30, 1996. The actuarial valuation as of June 30, 1995, will determine the rates for a two-year period beginning July 1, 1996.

Actuarially required contributions and related disclosures for the year ended June 30, 1994, are not available.

**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 year 1995. Information for fiscal years 1994 and 1993 is not available because the agency did not join the system until January 1, 1994.

(1)                      (2)                      (3)                      (4)                      (5)                      (6)

SOUTHWEST HUMAN RESOURCE AGENCY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1995, AND JUNE 30, 1994

Fiscal Year	Net Assets Available For Benefits	Pension Funded Obligation	Percentage Funded (1)÷(2)	Unfunded PBO (2)-(1)	Annual Covered Payroll	Unfunded PBO as a Percentage of Covered Payroll (4)÷(5)
1995	\$274,224	\$337,914	81.15%	\$63,690	\$1,742,490	(3.66%)

Showing the unfunded 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, 1995, and 1994, the agency's contributions to the TCRS, made in accordance with actuarially determined requirements, were 6.57% of annual covered payroll. Information for fiscal year 1993 is not available because the agency did not join the system until January 1, 1994.

Ten-year historical trend information for the retirement system as a whole may be found in the *Tennessee Code Annotated System Comprehensive Annual Financial Report* for the year ended June 30, 1995.

**NOTE 12. RISK MANAGEMENT**

The agency participates in the Tennessee Municipal League (TML) Risk Management Pool for the following risks of loss: commercial general liability; theft of, damage to, or destruction of real and personal property; bodily injury, property damage, physical damage, and personal injury liability for vehicle operation; and workers' compensation and employers' liability. The agency's agreement with the TML Risk Management Pool provides for payment of annual premiums. The agreement also provides for refunds to members and additional member assessments. Additional member assessments are made based on the experience of the pool. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

The agency carries commercial insurance for the following risks of loss: employee dishonesty; bodily injury for the Head Start program; and accident, personal liability, and excess auto liability for the Foster Grandparent volunteers. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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The agency elected to provide basic health, dental, and life insurance coverage for its employees through commercial insurance policies. The agency's obligation under the basic health insurance policy is limited to \$166.59 per month per employee for individual coverage or \$277.27 per month per employee for family coverage. The agency's obligation under the dental insurance policy is limited to \$11.73 per month per employee. The obligation under the life insurance policy is limited to \$12.61 per month per employee for individual coverage or \$17.41 per month per employee for family coverage, unless the employee does not have health insurance coverage, in which case the agency pays the entire life insurance premium.

**NOTE 13. SUBSEQUENT EVENTS**

The agency is a defendant in a lawsuit filed July 11, 1995, by the parents of a youth electrocuted on July 21, 1994, while working with a youth group through the agency's Work Camp Program. Program workers assist in the renovation and improvement of the homes of underprivileged persons in Grand Junction, Tennessee.

The plaintiffs allege that the agency's employees were negligent in their responsibilities to oversee, protect, and warn the deceased of imminent dangers. The plaintiffs are seeking actual and compensatory damages of \$9 million and punitive damages of \$18 million from the agency and other defendants named in the suit. The case is currently pending pursuant to being refiled due to the death of one of the plaintiffs, the father of the youth who was electrocuted.

Management and its insurance company believe that the likelihood of a judgment against the agency in excess of its liability insurance coverage is remote.

On July 9, 1996, a senior citizen choked to death at the Decatur County Senior Citizen Center, one of the agency's Congregate Nutrition sites, while eating a Nutrition meal. There is currently no pending or threatened legal action against the agency with regard to this incident. Any future contingent liabilities arising from this incident cannot be determined at this time.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 14. RESTATEMENT OF PRIOR-YEAR FINANCIAL STATEMENTS**

A capital lease for a local area network (LAN) computer system, which consists of six 386 computers and one 486 file server and the necessary hardware and software peripherals, was not disclosed in the report for the year ended June 30, 1994. The value of the LAN was \$14,977.00. As a result, expenditures for the capital lease principal and interest were understated by \$2,302.54 and \$573.92, respectively, and equipment rental expenditures were overstated by \$2,876.46. In addition, the \$14,977.00 value of the LAN should have been recorded as Equipment expenditure and an Other Financing Source. These changes have been reflected in the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances for the year ended June 30, 1994.

The value of the LAN should have been included in the General Fixed Assets Account Group as Leased Equipment and as Investment in General Fixed Assets - General Fund. Also, at June 30, 1994, the remaining \$12,674.46 of the lease should have been included in the General Long-Term Debt Account Group as Amounts to be Provided for Capital Lease Principal and as Obligations Under Capital Leases. These changes have been reflected in the Combined Balance Sheets as of June 30, 1994 and in Notes 5, 8, and 10 at June 30, 1994.

A capital lease for a mail machine was misclassified as an operating lease in the report for the years ended June 30, 1994, and June 30, 1993. The value of the mail machine was \$3,644.00. As a result, expenditures for the capital lease principal and interest were understated by \$649.72 and \$1,486.28, respectively, in the year ended June 30, 1994, and \$283.25 and \$1,720.75, respectively, in the year ended June 30, 1993. Equipment rental expenditures were overstated by \$2,136.00 and \$2,004.00, respectively, for the years ended June 30, 1994, and June 30, 1993. In addition, the \$3,644.00 value of the mail machine should have been recorded as an Equipment expenditure and an Other Financing Source. These changes have been reflected in the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances for the year ended June 30, 1994.

The value of the mail machine should have been included in the General Fixed Assets Account Group as Leased Equipment and as Investment in General Fixed Assets - General Fund. Also, at June 30, 1994, the remaining \$2,711.03 of the lease should have been included in the General Long-Term Debt Account Group as Amounts to be Provided for Capital Lease Principal and as Obligations Under Capital Leases. These changes have been reflected in the Combined Balance Sheets as of June 30, 1994 and in Notes 5, 8, and 10 at June 30, 1994.

SOUTHWEST HUMAN RESOURCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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None of these changes affected the previously reported fund balance.



















## APPENDIX

### SOUTHWEST HUMAN RESOURCE AGENCY

Samuel L. Dawson, Executive Director

#### BOARD OF DIRECTORS

##### Officers

Mr. Anthony Bolton, Chairman, County Executive, Chester County  
Dr. J. Alex Leech, Vice Chairman, County Executive, Madison County  
Ms. Diane Davis, Secretary/Treasurer, Counce

##### Executive Committee Members

Mr. Franklin Smith, County Executive Haywood County	Mr. Mike Smith, County Executive McNairy County
Mr. Don Clift, County Executive Hardeman County	Mrs. Betty Miller, Parsons
Mr. Joe Barker, County Executive Hardin County	Mr. Dennis McDaniel, County Executive Henderson County
Mrs. Netha Ross, Henderson	Mayor Charles Farmer, Jackson
Mrs. C. Elma Motley, Whiteville	Mr. James Bishop, Jackson
Mr. Kenneth Broadway, County Executive Decatur County	Rev. C.N. Ricks, Brownsville
Mr. James L. Watlington, Jackson	Mr. Harold Robinson, Adamsville
	Mr. Norman Carver, Lexington

##### Other Members of the Board of Directors

Mayor Eddy Patterson, Henderson	Mayor Billy Olive, Wildersville
Mayor Nell Campbell, Enville	Mayor James Wilson, Medon
Mayor Edward Montgomery, Parsons	Mayor Jimmy Whittington, Selmer
Mayor Jerry Buchanan, Decaturville	Mayor Jody Walker, Bethel Springs
Mayor Charles Frost, Bolivar	Mayor George Armstrong, Ramer
Mayor Julian Cooper, Whiteville	Mayor Larry W. Raines, Stantonville
Mayor A. E. Smith, Jr., Toone	Mayor Tommy Wiggington, Michie
Mayor Robert Chandler, Hornsby	Mayor Myra Vaughn, Crump
Mayor James S. Simpson, Middleton	Mayor Dan Ward, Adamsville
Mayor R. Wade Castellaw, Silerton	Mayor Danny Kennedy, Milledgeville
Mayor Sara Emerson, Saulsbery	Mayor Jeneva Connor, Finger
Mayor Brenda Daniel, Grand Junction	Mayor Wayne Henry, Guys
Mayor Mac Hobson, Hickory Valley	Mayor Elvis Butler, Eastview
Mayor J. D. Cherry, Jr., Savannah	Mr. A. W. Garland, Henderson
Mayor David Willis, Saltillo	Ms. Sharon Blackwelder, Savannah
Mayor Jimmy Halbrook, Brownsville	Mr. Wilburn Gene Ashe, Selmer
Mayor Henry Johnson, Stanton	Mr. Bobby Butler, Lexington
Mayor David Jowers, Lexington	Representative Matt Kisber, Jackson
Mayor David Rhodes, Scotts Hill	Senator Bobby Carter, Jackson
Mayor Joe Ross, Sardis	

