

SOUTH CENTRAL HUMAN RESOURCE AGENCY

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

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April 28, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
South Central Human Resource Agency
Fayetteville, Tennessee 37334

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the South Central 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
96/077

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
South Central Human Resource Agency
For the Year Ended June 30, 1995

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 FINDINGS

The Misdemeanor Program's Controls Over Cash Receipting Need Improvement*

The agency's main office depends solely upon employees at the program's outlying offices for knowledge of probationer assignments and for collection and deposit of cash receipts. Also, cash-receipting duties are not segregated (page 21).

The Agency Did Not Properly Close Its Books**

The agency's closing process was not complete. The balances for revenues and expenditures shown in the agency's general ledger

did not accurately reflect the year's activity (page 22).

Collateralization of Bank Deposits Was Not Properly Monitored**

Deposits were undercollateralized for 179 days at one of the agency's banks. The amounts undercollateralized ranged from \$261.58 to \$475,380.03, with an average of \$77,634.47. At another of the agency's banks, deposits were undercollateralized for 44 days. The amounts undercollateralized ranged from \$2,415.84 to \$134,061.33, with an average of \$76,920.53 (page 23).

*This finding is repeated from the prior audit.

**This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

REPORT ON THE INTERNAL CONTROL STRUCTURE

The Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards* (page 5) lists the following material weakness:

- Collateralization of bank deposits was not properly monitored

"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
SOUTH CENTRAL HUMAN RESOURCE AGENCY
FOR THE YEAR ENDED JUNE 30, 1995

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SOUTH CENTRAL HUMAN RESOURCE AGENCY
FOR THE YEAR ENDED JUNE 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the South Central 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.

BACKGROUND AND ORGANIZATION

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 for a regional system to deliver human resource programs in the state's counties and cities.

The South Central Human Resource Agency was established in July 1973 and comprises the following counties: Bedford, Coffee, Franklin, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, and Wayne. The agency's administrative offices are in Fayetteville, Tennessee.

ORGANIZATION

The governing body of the South Central Human Resource Agency is the board of directors. As of June 30, 1995, the board was composed of 64 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 South Central 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>
Senior Community Service Employment Program (Title V)	National Council on the Aging, Inc.
Child and Adult Care Food Program	Tennessee Department of Human Services
Low-Income Home Energy Assistance	Tennessee Department of Human Services
Special Programs for the Aging-Title III, Part C-Nutrition Services	South Central Tennessee Development District
Community Services Block Grant	Tennessee Department of Human Services
Head Start	U.S. Department of Health and Human Services

PRIOR AUDIT FINDINGS

RESOLVED AUDIT FINDING

The current audit disclosed that the agency has corrected the previous audit finding concerning proper purchasing procedures.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the agency's failure to properly close its books, inadequate cash-receipting controls over the misdemeanor program, and inadequate monitoring of bank account collateralization. These findings have not been resolved and are repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the agency's financial statements for the year ended June 30, 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. Reportable conditions, including a material weakness, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the compliance reports.

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.

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions 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 conditions were noted:

- The misdemeanor program's controls over cash receipting need improvement.
- The agency did not properly close its books at fiscal year-end.
- Collateralization of bank deposits was not properly monitored.

These conditions are 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 noted the following matter involving the internal control structure and its operation that we considered to be a material weakness as defined above: management did not properly monitor the collateralization of bank deposits. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the agency's financial statements for the year ended June 30, 1995. This weakness is described in the Findings and Recommendations section of this report.

The Honorable W. R. Snodgrass
June 21, 1996
Page Three

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 21, 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 21, 1996.

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
- 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 82 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 certain matters involving the internal control structure and its operation that we consider to be reportable conditions 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 applicable laws and regulations.

The following reportable conditions were noted:

- The misdemeanor program's controls over cash receipting need improvement.
- The agency did not properly close its books at fiscal year-end.
- Collateralization of bank deposits was not properly monitored.

These conditions are 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 noted the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above: management did not properly monitor the collateralization of bank deposits. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the agency's compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1995, and this report does not affect our report thereon dated June 21, 1996. This weakness is described in the Findings and Recommendations section of this report.

The Honorable W. R. Snodgrass
June 21, 1996
Page Five

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable W. R. Snodgrass
June 21, 1996
Page Two

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 21, 1996
Page Two

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 21, 1996
Page Two

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 21, 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 South Central Human Resource Agency as of and for the year ended June 30, 1995, and have issued our report thereon dated June 21, 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 21, 1996
Page Two

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

THE MISDEMEANOR PROGRAM'S CONTROLS OVER CASH RECEIPTING NEED IMPROVEMENT

1. FINDING:

As noted in the prior audit, the agency needs to improve the procedures used to control cash receipts for the misdemeanor program. Management concurred with the prior finding and stated that it had requested that court clerks provide the agency with lists of daily program placements, but the necessary information had not been furnished. Management further stated that central office personnel were not attending all trial proceedings. Management stated that to improve internal controls at the local offices, it had begun using preprinted receipts and endorsing checks and money orders with a stamp reading "for deposit only." Even with the improvements, problems remain.

County judges in Columbia, Lewisburg, and Pulaski assign misdemeanor offenders to the misdemeanor program. The probation agreement requires offenders to contact the local program personnel at least once per month and pay the program supervision fees. In some cases, they also pay restitution to the victim through the program. The only agency personnel who receive documentation of program assignments and payment terms are the local program personnel attending court. The courts do not inform the agency's central office of probationer assignments or payment terms. Therefore, the central office relies on the local program personnel for this information.

The lack of adequate controls at the central office could allow local office personnel the opportunity to keep probationer payments without reporting probationer assignments.

In addition, the cash-receipting duties are not segregated. The same person may receive the cash, write the receipt, prepare the deposit slip, make the deposit, and record the receipt in the receipt log.

RECOMMENDATION:

In order to independently verify probationer assignments and payment terms, the program director or her designee should periodically obtain information from the court clerk in each county regarding probationers assigned to the agency and follow-up to determine that the proper payments are being received and deposited.

Management should implement procedures to strengthen controls over cash receipts. Duties should be segregated to the greatest extent possible, and management should review employees' work when adequate segregation is not practical.

MANAGEMENT'S COMMENT:

We concur. We will establish and implement controls over cash receipts and spot check court referrals to ensure as much program integrity as possible.

THE AGENCY DID NOT PROPERLY CLOSE ITS BOOKS
AT FISCAL YEAR-END

2. FINDING:

As noted in the prior two audits, the agency's closing process was not complete. Although management concurred with the prior finding and stated that the fiscal officer would close the books at the end of the fiscal year in compliance with the *Accounting Manual for Recipients of Grant Funds in Tennessee*, several problems with the closing process were noted during the current audit.

The fiscal year 1995 general ledger included fiscal year 1994 revenues and expenditures for programs that began prior to July 1, 1994. In addition, for one program that began in fiscal year 1994, the fiscal year 1995 general ledger showed a zero balance for revenues and expenditures even though there were revenues and expenditures during fiscal year 1995. Staff closed out the program with the fiscal year 1994 closing entries. Adjustments were made to properly reflect revenues and expenditures in the financial statements.

At year-end, the agency cut off its 1995 general ledger at June 23, 1995. All activity from June 24-30, 1995, was posted to the 1996 general ledger. As a result, \$161,994.34 of receipts and \$268,241.36 of disbursements were not recorded in the proper general ledger. The agency made numerous adjustments to the trial balance to include these amounts in the proper fiscal year.

For several programs, amounts shown on the trial balance did not agree with the agency's subsidiary ledgers.

A receipt of \$8,767.33 from the Department of Human Services for the Child Care Broker Services program was not posted to the summary program subledger, the general ledger, or the trial balance.

In addition, the agency did not update the equipment balance in the 1995 general ledger until more than seven months after the end of the fiscal year. Also, interest earned on a certificate of deposit was not posted to the 1995 general ledger.

If the agency does not properly close its books, it cannot determine its financial condition at a given date or determine its results of operations for a specific fiscal period. Furthermore, not properly closing the books increases the probability that errors or irregularities will occur and go undetected.

Specific guidance for closing books at year-end is provided in the *Accounting Manual for Recipients of Grant Funds in Tennessee*.

RECOMMENDATION:

The fiscal officer should follow the guidance in the *Accounting Manual for Recipients of Grant Funds in Tennessee* for maintaining the agency's accounting records. All transactions for a particular fiscal year should be recorded in that year's general ledger. Furthermore, the fiscal officer should carefully review the accounting records to ensure that the trial balance, the subsidiary ledgers, and the general ledger agree.

MANAGEMENT'S COMMENT:

We concur and have discussed this finding with the fiscal officer in depth again. We will ensure compliance with requirements/guidance in the *Accounting Manual for Recipients of Grant Funds in Tennessee*.

COLLATERALIZATION OF BANK DEPOSITS WAS NOT
PROPERLY MONITORED

3. FINDING:

As noted in the prior two audits, the agency did not adequately monitor the balances of collateral securities pledged by the banks holding the agency's deposits. Securities are pledged to collateralize deposits exceeding Federal Deposit Insurance Corporation (FDIC) coverage.

Management concurred with the prior finding and stated that they would monitor the collateral pledged to ensure that sufficient amounts are pledged at all times; however, deposits for one agency bank account were undercollateralized for 179 days. During this

time, undercollateralized deposits ranged from \$261.58 to \$475,380.03 and averaged \$77,634.47. The periods of undercollateralization and the average amounts undercollateralized for the account were as follows:

<u>Month</u>	<u>Days of Undercollateralization</u>	<u>Average Amount of Undercollateralization</u>
July 1994	14	\$124,611.53
August 1994	28	\$ 83,765.54
September 1994	23	\$ 90,088.35
October 1994	11	\$ 86,122.35
November 1994	4	\$ 68,583.28
December 1994	21	\$ 42,055.80
January 1995	19	\$158,874.78
February 1995	11	\$ 20,052.38
March 1995	14	\$ 24,618.74
April 1995	11	\$ 67,727.17
May 1995	17	\$ 53,827.61
June 1995	6	\$ 64,293.97

Deposits for another bank account were undercollateralized for 44 days. During the months noted below, undercollateralized deposits ranged from \$2,415.84 to \$134,061.33 and averaged \$76,920.53:

<u>Month</u>	<u>Days of Undercollateralization</u>	<u>Average Amount of Undercollateralization</u>
October 1994	2	\$ 93,389.07
November 1994	4	\$ 73,363.15
December 1994	8	\$ 93,102.89
January 1995	7	\$ 18,495.40
February 1995	3	\$113,993.84
March 1995	4	\$ 71,729.44
April 1995	6	\$117,801.38
May 1995	6	\$ 86,259.64
June 1995	4	\$ 44,179.13

Although no losses were incurred as a result of the undercollateralization, agency funds exceeding FDIC coverage and securities pledged could be lost if the bank becomes insolvent.

RECOMMENDATION:

The executive director should assign specific responsibility for monitoring the collateral pledged to ensure that bank deposits are sufficiently collateralized at all times. The

executive director should closely monitor the activities of the employees carrying out these duties.

MANAGEMENT'S COMMENT:

We concur; this responsibility is assigned to the deputy director and will be monitored on an on-going basis.

Independent Auditor's Report

June 21, 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 South Central 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 South Central 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 41 through 49

The Honorable W. R. Snodgrass
June 21, 1996
Page Two

is presented for purposes of additional analysis and is not a required part of the agency's financial 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 21, 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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The agency was established in 1973 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 64-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.

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

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

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 Group

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.

Budgetary Process

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

Inventories and Prepaid Items

Inventories are valued at cost using the average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

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

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

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.

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 \$449,770.62 at June 30, 1995, and \$421,105.01 at June 30, 1994.

Litigation — The agency is involved in one lawsuit; however, the outcome is not 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, including a certificate of deposit, was \$949,713.11, and the bank balance, including accrued interest, was \$1,094,742.63. Of the bank balance, \$273,134.11 was category 1, and \$821,608.52 was category 2. There were periods during the fiscal year in which the agency had material balances that were uncollateralized. This occurred because the

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

agency did not increase the amount of pledged collateral securities as deposits increased.

At June 30, 1994, the carrying amount of the agency's deposits was \$869,164.18, and the bank balance was \$1,164,604.99. Of the bank balance, \$231,230.59 was category 1, \$703,000.00 was category 2, and \$230,374.40 was category 3.

A recent court decision by the U.S. Court of Appeals for the Eighth Circuit 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 Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). During most of the year ended June 30, 1994, the agency's security agreement did not meet the requirements outlined in Section 1823(e) of the act. Therefore, 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 with First Union Bank was revised as of June 30, 1994, and the agreement with Peoples Bank was revised as of January 12, 1994. Notwithstanding the effect of FIRREA, there were other periods during the fiscal year in which the uncollateralized amount materially exceeded the amount at June 30, 1994. This occurred because the agency did not increase the amount of pledged collateral securities as deposits increased.

NOTE 4. INTERFUND RECEIVABLE/PAYABLE ACCOUNTS

These accounts represent the amounts owed between the general and special revenue funds because operating cash had been transferred between the funds to cover negative cash balances at year-end.

NOTE 5. FIXED ASSETS

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

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

	Balance <u>July 1, 1994</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 1995</u>
Furniture and equipment	\$ 484,812.39	\$ 52,738.13	\$ 7,579.28	\$ 529,971.24
Vehicles	<u>1,232,055.34</u>	<u>127,559.00</u>	<u>66,127.28</u>	<u>1,293,487.06</u>
Totals	<u>\$1,716,867.73</u>	<u>\$180,297.13</u>	<u>\$73,706.56</u>	<u>\$1,823,458.30</u>

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

	Balance <u>July 1, 1993</u>	<u>Adjustments</u>	Adjusted Balance <u>July 1, 1993</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 1994</u>
Furniture and equipment	\$ 407,381.11	\$8,721.84	\$ 416,102.95	\$ 97,233.96	\$28,524.52	\$ 484,812.39
Vehicles	<u>1,093,241.16</u>	<u>-</u>	<u>1,093,241.16</u>	<u>209,500.00</u>	<u>70,685.82</u>	<u>1,232,055.34</u>
Totals	<u>\$1,500,622.27</u>	<u>\$8,721.84</u>	<u>\$1,509,344.11</u>	<u>\$306,733.96</u>	<u>\$99,210.34</u>	<u>\$1,716,867.73</u>

NOTE 6. RESERVED FUND BALANCE

The reserved fund balance at June 30, 1994, was \$20,580.00. This amount was reserved for a leasehold improvement to a Head Start center. The grantor provided funding for the improvement during the fiscal year the work began although the work was not finished until the subsequent fiscal year.

NOTE 7. OPERATING LEASES

The agency leases office space to carry out its activities and to administer the various grant programs. The lease, which expires on December 31, 1995, requires monthly rental payments of \$1,500.00. During the year ended June 30, 1995, the agency rented 18,248 square feet of office space at the cost of \$18,000. Payments for other leases during the year totaled \$48,274.84.

During the year ended June 30, 1994, the agency rented office space at the cost of \$18,000. Payments for other leases during that year totaled \$46,469.22.

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

All leases are cancelable at the agency's option.

NOTE 8. LEASEHOLD IMPROVEMENTS

During the year ended June 30, 1995, the agency expended \$84,359.93 for leasehold improvements. Expenditures of \$82,359.93 were made for Head Start centers. Expenditures of \$2,000.00 were made for the agency office in Fayetteville.

During the year ended June 30, 1994, the agency expended \$77,037.64 for leasehold improvements. Expenditures of \$73,048.53 were made for Head Start centers. Expenditures of \$3,989.11 were made for the agency office in Fayetteville.

All leases that the agency has entered into are cancelable at the option of the agency. For this reason, the cost of the improvements is not included in the General Fixed Assets Account Group.

NOTE 9. DEFINED CONTRIBUTION PENSION PLAN

The agency provides pension benefits for all its eligible employees through a defined contribution plan administered by Professional Pensions, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months of employment. According to the agency's personnel policies approved by the board of directors, the agency contributes 5% of the employee's base salary each month, and the employee contributes at least 2% of the base salary. The agency's contributions for each eligible employee (and interest allocated to the employee's account) are fully vested after one year's continuous service. Agency contributions for, and interest forfeited by, employees who leave employment before one year of service are used to reduce the agency's current period contribution requirement.

The agency's total payroll for the year ended June 30, 1995, was \$4,384,827.84. The payroll for employees covered by the plan was \$1,873,918.92. The contribution requirement was \$179,641.76, which consisted of \$93,695.95 from the agency and \$85,945.81 from employees; these contributions represented 5.00% and 4.59% of covered payroll, respectively.

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

The agency's total payroll for the year ended June 30, 1994, was \$4,135,890.44. The payroll for employees covered by the plan was \$1,574,686.68. The contribution requirement was \$148,686.18, which consisted of \$78,734.33 from the agency and \$69,951.85 from employees; these contributions represented 5.00% and 4.44% of covered payroll, respectively.

Both the agency and the covered employees made their required contributions for both years.

NOTE 10. RISK MANAGEMENT

The agency participates in the Tennessee Municipal League (TML) Risk Management Pool for the following risks of loss: commercial general liability; personal injury liability; theft of, damage to, or destruction of real and personal property; public officers' liability; automobile insurance; 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. Additional member assessments have not been imposed in any of the past three fiscal years.

Additionally, the agency carries excess liability insurance through the States Self Insurers Risk Retention Group, Inc., by TML.

The agency also carries the following types of commercial insurance: special accident insurance for the Head Start and Parent Child Center programs; accident insurance for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the Community Correction Program and the agency; personal liability for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the agency; fire insurance for the Lawrenceburg Head Start center; commercial blanket employee dishonesty insurance; and excess automobile liability insurance for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the agency. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

The State of Tennessee has set aside assets for claim settlement in the Employee Group Insurance Fund. This is an internal service fund that provides a program of health insurance coverage for the employees of the state with the risk

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

retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency. The cost allocation is based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The agency's obligation under the plan is limited to 80 percent of the total premium for its employees.

NOTE 11. RELATED-PARTY TRANSACTION

On February 17, 1994, the agency paid an employee \$13,500 for \$11,990 of equipment and \$1,510 of supplies. The purchase price and assigned values were based on two appraisals of the items.

NOTE 12. TRANSFER FOR ANNUAL LEAVE LIABILITY

During the year ended June 30, 1994, the U.S. Department of Health and Human Services allowed the agency to obtain funding for compensated absences of Head Start personnel at the time such compensation was earned. In addition, the grantor allowed the agency to obtain funding for its liability for previously earned compensated absences of Head Start personnel, provided that funds were available in the agency's current grant awards. The agency was able to charge the grantor \$128,812.78 for its share of the accrued leave liability at June 30, 1993. This amount was transferred to the general fund.

APPENDIX
SOUTH CENTRAL HUMAN RESOURCE AGENCY

Roy Tipps, Executive Director

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